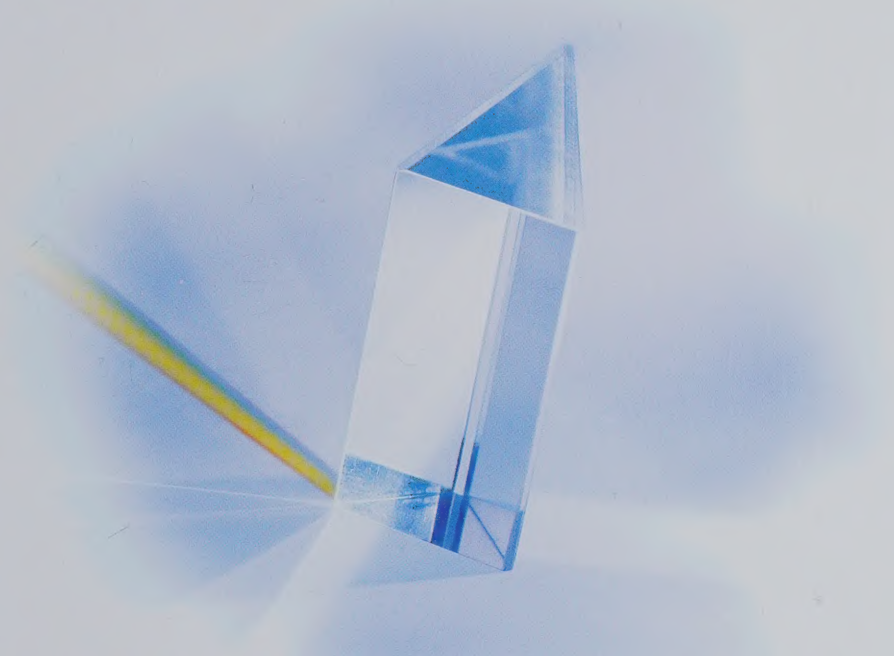
BCE

scope



Through the scope of our activities, we serve customers, we grow our business and we create value for our shareholders. We are people reaching out to the challenge of bringing the world together through communications.

BELL CANADA ENTERPRISES

1998 ANNUAL REPORT

reaching out to the challenge

BCE HAS ADOPTED THE BELL LOGO AS PART OF A WIDER PROGRAM TO BUILD ON THE HISTORIC STRENGTH AND RECOGNITION OF THE BELL BRAND AND OFFER CUSTOMERS THE CONVENIENCE OF A FULL RANGE OF INFORMATION, COMMUNICATION AND ENTERTAINMENT SERVICES.

BCE offers the full spectrum of communications services and solutions to our customers in Canada and abroad. We are committed to growing profitably through our diverse capabilities and the skills of our employees worldwide. Our strengths...

Scope Spanning key segments of the communications sector: Canadian communications services, systems integration and e-commerce, media, technology and solutions, and international communications services.

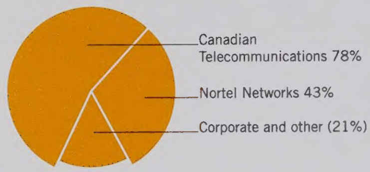
Reach Doing business in 150 countries, including the world's most dynamic communications growth markets.

Commitment Combining the market experience, technological leadership and customer knowledge of our people to develop innovative solutions of unique value.

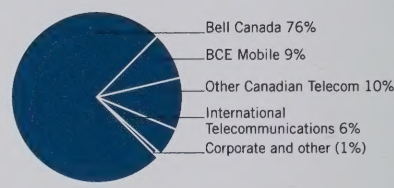
Innovation Committing to research and development as the foundation of our success and our ability to meet customer needs.

Brands Leveraging marketplace leadership on the reputation of Bell Canada and Nortel Networks.

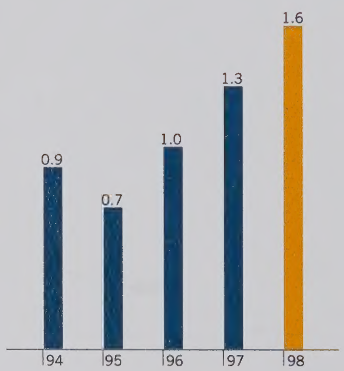
Value Outperforming the TSE 300 Index since 1993.



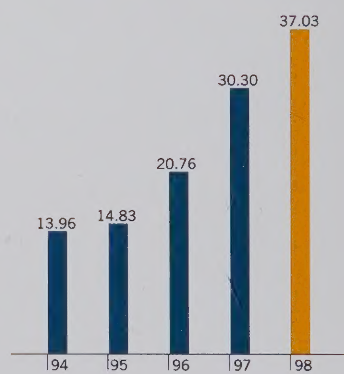
CONTRIBUTIONS TO BCE BASELINE EARNINGS



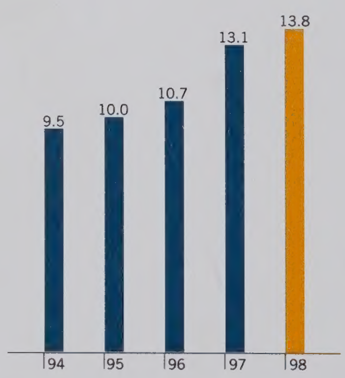
CONTRIBUTIONS TO BCE REVENUES EXCLUDING NORTEL NETWORKS



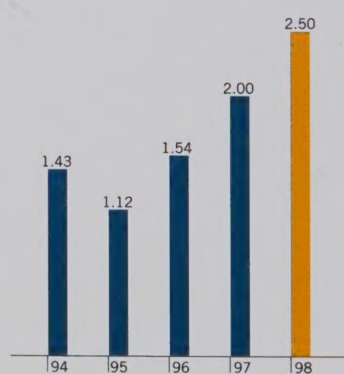
BASELINE EARNINGS
($billions)



MARKET CAPITALIZATION
($billions)



REVENUES EXCLUDING NORTEL NETWORKS
($billions)



BASELINE EARNINGS PER COMMON SHARE
($)

($ millions, except per share amounts)	**1998**	1997
Revenues	**27,454**	34,517
Revenues excluding Nortel Networks	**13,826**	13,051
Net earnings [1]	**4,598**	1,414
Baseline [2] earnings applicable to common shares	**1,592**	1,273
Baseline [2] earnings per common share	**2.50**	2.00
Baseline [2] return on assets (%)	**16**	15

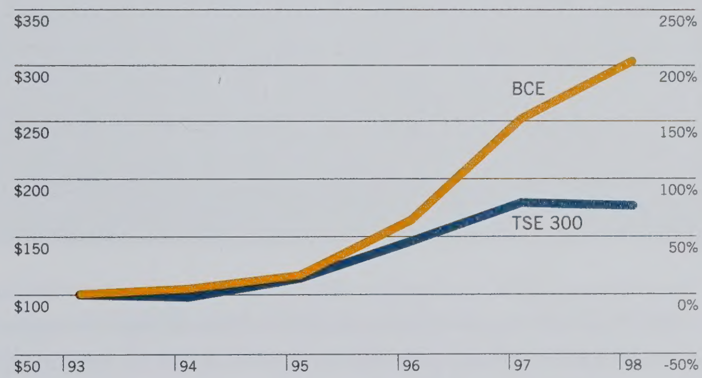
1 Before extraordinary item

2 Excluding special items

SHAREHOLDERS' TOTAL RETURN

December 31, 1993 = $100 Canadian

The compound annual return on BCE common shares during the five-year period ending December 31, 1998, assuming reinvestment of all dividends, was 25.6 per cent compared to a 10.7 per cent return on the TSE 300 Composite Index (TSE 300).

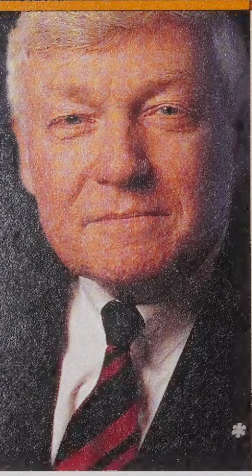


PRICE RANGE OF COMMON SHARES [3]

	1998			1997		
	High	**Low**	**Close**	High	Low	Close
Toronto Stock Exchange ($)	**68.05**	**39.75**	**57.85**	48.75	30.78	47.65
NYSE Consolidated tape ($US)	**46⅞**	**25⅝**	**37 15/16**	34	22	33 5/16

3 Adjusted to reflect two-for-one stock split effective May 14, 1997.

1998: investing for growth


L. R. Wilson

Telecommunications is today the world's most dynamic and exciting industry. Ours is an industry undergoing a revolutionary transformation from a century-long tradition of voice services to a limitless future where all forms of information will be available literally anywhere, anytime thanks to the magic of the Internet, wireless and optical technologies.

Your company, BCE, is uniquely positioned to succeed in this unfolding world of opportunity owing to the unequalled scope of our telecommunications capabilities. Our strategy is to exploit our scope to give customers the integrated communications services and solutions that will define the leading edge of the industry and by so doing, to be a leader in creating value for shareholders. In 1998 we invested heavily in new initiatives whose impact on our financial results is already being felt. These investments, and the strategies underlying them, are detailed in the pages that follow. We will continue to invest strategically in high-growth opportunities in the coming year in order to further strengthen our competitive position.

Reviewing the year just completed, BCE's 1998 baseline earnings grew by 25 per cent over 1997, from $1.3 billion to $1.6 billion. Revenues, excluding Nortel Networks which is no longer consolidated in BCE, increased by six per cent during the past year to $13.8 billion. A detailed review of BCE's financial results can be found in the Management's Discussion and Analysis section which begins on page 22 of this report.

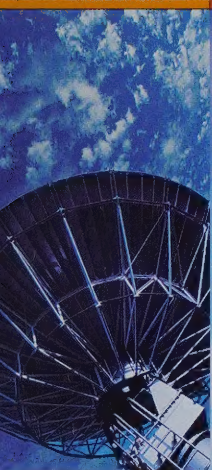
Group Results

Bell Canada continues to reshape its business operations in the face of heated competition on all fronts. While the company made significant progress in 1998, revenues and earnings remained virtually unchanged from the previous year when adjusted for the accounting changes made in 1997. Significant advances, however, were made in other areas. For example, aggressive savings plans for residence and business customers enabled Bell Canada to stem the erosion of market share in the long distance telephone market for the first year since the introduction of competition. Revenues generated from data services, a high growth area of our industry, grew by 19 per cent.

Nortel Networks finished the year with record results, underscoring the wisdom of its decision in 1998 to acquire Bay Networks. Nortel Networks' revenues for the year grew by 22 per cent over 1997, from $21.5 billion to $26.3 billion. Continuing growth is indicated by order input—essentially the dollar value of orders that have been placed for future delivery. In this respect, the year ended on a particularly strong note for Nortel Networks with order input for 1998 of $28 billion, an increase of 24 per cent over 1997.

Bell Mobility's year was highlighted by the introduction of digital wireless service (PCS). Reflecting competition and anticipated costs associated with the introduction of PCS, the company's earnings declined from $71 million in 1997 to essentially zero for the past year. Meanwhile overall subscriber growth continued to be very strong, up 19 per cent over 1997, to end the year at two million. But intense competition kept downward pressure on prices. As a result, revenues for 1998 increased by only three per cent to $1.29 billion.

Bell Canada International (BCI) recorded a year of robust growth in 1998. Revenues grew by 85 per cent from $418 million in 1997 to $772 million in 1998. The companies in which BCI has an interest now provide service to approximately three million customers—a five-fold increase over year-end 1997.



The 25 per cent improvement in BCE's baseline earnings for 1998 resulted from increases in our Canadian and International Telecommunications groups, and Nortel Networks. BCE's competitive growth strategy is unfolding rapidly.

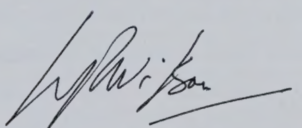
Jean C. Monty

Executive Changes

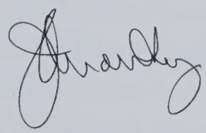
In May 1998, L.R. Wilson, then Chairman and Chief Executive Officer was succeeded as Chief Executive Officer by Jean C. Monty, while Mr. Wilson continued as Chairman and an officer of the corporation.

In January 1999, the Board asked Mr. Wilson to continue as non-executive Chairman, and to assume the chairmanship of the recently formed Corporate Governance Committee. Consistent with these extended non-executive Board governance responsibilities, Mr. Wilson retired as an officer and employee of the corporation. A discussion of changes to our board of directors and other governance issues can be found on page 20 of this Annual Report.

As always we would like to thank our many thousands of employees in Canada and abroad who move our company forward on a daily basis and on whose skill and dedication we rely.



L.R. Wilson
Chairman of the Board



Jean C. Monty
President and
Chief Executive Officer

February 22, 1999

customer focus, growth, financial performance

No competitor can match the scope of services we deliver to our customers. Nor can they match our commitment to growth. The year ahead will be marked with significant developments as we move decisively to make investments and forge alliances that will propel us into the new millennium as the only Canadian company equipped to compete in the global communications arena.

As we chart a course through an industry swept by change and upheaval, the Bell brand, Nortel Networks and our millions of customers remain our strongest assets. It is our responsibility, therefore, to safeguard BCE's attributes of service excellence, innovation and reliability. We will continue to develop our enormous potential for our shareholders, employees and all Canadians.

BCE Mission: to be a customer-driven group, building on the strengths of our franchises, to create growth and value, by reaching out with leading-edge communication, information and entertainment services.

1998 GROWTH INVESTMENTS	
CGI *43% stake*	$ 218M
Telesat *increased stake to 100%*	158M
Bell ExpressVu	124M
Bell Nexxia *1998–1999*	750M
BCE Emergis *65% stake*	68M
Teleglobe/Excel *20% stake*	736M
Bell Canada Labs *committed investments 1999–2001*	35M
Sympatico High Speed Edition *1–Meg Modem*	38M
BCE Mobile *new share issue*	170M
Ethnic American Broadcasting Company	72M
Anik F1 Satellite	400M
Nortel Networks	107M
	$2,876M

As we move to increase our reach and scope, we are guided by three principles: customer focus, growth and financial performance. These three pillars support our mission and every initiative we undertake.

In 1998, we committed some $2.9 billion to growth-oriented investments. These investments ranged from supporting Bell ExpressVu—which 18 months ago did not exist and now has some 200,000 customers and more than 300 employees—to taking a significant ownership position in the CGI Group Inc., an international player in the integration of information systems.

As these and other developments in this report suggest, the pace of change in our industry is relentless. We must be equally relentless in our pursuit of new opportunities—even if it means changing some of our most cherished assumptions. Bell Canada, for example, is drastically different from what it was just five years ago, and it will have gone through yet another metamorphosis in five years' time.

Sharpening our Focus

To help consolidate our activities and focus our strategic approach to markets, we have grouped with Bell Canada the other parts of our business which offer communications services such as Bell ActiMedia and Bell Mobility. This move helps us enhance the overall value of our offering to our customers and thereby creates greater value for our shareholders. We are also creating two new groups that we believe will provide greater growth opportunities. Our new media group will offer content and satellite services; and the second will focus on systems integration and Internet solutions.

Internet: Power and Potential

Our different businesses have varying degrees of growth potential. Our e-commerce activities can serve as a case in point. Electronic commerce represents the burgeoning potential of life on the Internet—an environment where connectivity is widespread and where information, entertainment and transactional services abound.

Consider that nearly 150 million people are today connected to the Internet; that Internet traffic doubles every three months; and that in less than one year, 80 per cent of the traffic on telecommunications networks will be data. This explains why most areas of our business are moving to capitalize on this tremendous potential.

It also explains why Nortel is re-inventing itself to become a company focused on the Internet needs of its customers. Nortel's purchase of Bay Networks in 1998 has enabled it to vault ahead of the competition in this critical growth area.

BCE Nexxia, which will operate in Canada under the name Bell Nexxia, is another example of positioning for growth on the Internet. While Bell Nexxia will offer a full range of traditional telephone services, its real significance is that it is Canada's leader in broadband and Internet-based services, specializing in applications and transport capabilities. We are investing three quarters of a billion dollars in this company, which will operate nationally in Canada and in select U.S. markets.

OUR FRANCHISES

BCE

Canadian Communications Services

Integrated information, communication and entertainment services to Canadians anytime, anywhere and via e-channels around the world

Bell Canada	Bell Nexxia
Bell Mobility	Teleglobe
Bell ActiMedia	Other Telcos

Technology and Solutions

Unified telecom networks to carriers and enterprises anywhere in the world

Nortel Networks

Systems Integration and e-commerce

Business solutions to enterprises globally

CGI	BCE Emergis

International Communications Services

North American know-how for the development of new telecom services in emerging markets

Bell Canada International

Media

Delivery of satellite entertainment and business services to the Americas

BCE Media	Telesat
Bell ExpressVu	

An Industry Made New Again

It has been said that telecommunications is an old industry that has become new again, giving birth to products and services that are forever changing how we live, work and play. This is why we will continue to invest in areas of business where we see demand growing, and where we can serve our customers better.

Amidst this rich profusion of technologies and options, however, there is the risk of confusion in the marketplace. This is why the BCE group of companies must remain customer focused. Customers want simplicity, and turn to us to provide it. But to do this we must be diversified within the communications industry, with the scope to offer suites of services packaged under a single brand.

Our Financial Targets

Management has set firm financial targets for the BCE group's overall growth. Chiefly, we intend to increase revenues by six to eight per cent per year through new investments and the expansion of existing businesses.

Customer Focus, Growth, Financial Performance

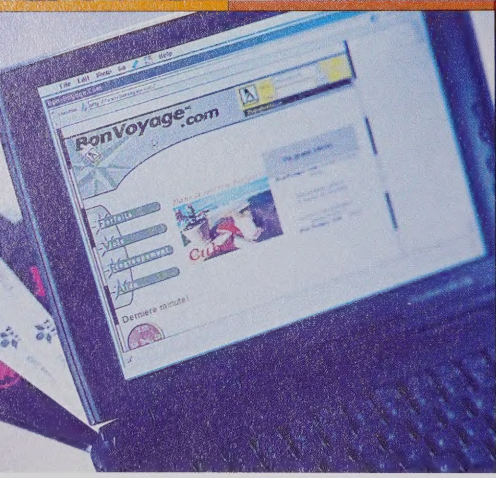
The one sure route to strengthening our financial performance and increasing long-term shareholder value is by growing our business. And the way to grow our business is by serving customers more completely, more competitively and more conscientiously than anyone else.

That is our commitment.

net benefits

How BCE companies are turning the Internet to their advantage

The Internet is a strategic priority for BCE, affecting virtually every business we're in. And no wonder — the Internet's social, political and economic significance is enormous. Every day, more and more people stay in touch, learn, work, shop and bank using the Internet. It revolutionizes business through e-commerce and reorders our personal lives... the phenomenon has only just begun.



BonVoyage.com For Quebecers, travel has never been simpler! In November Bell ActiMedia (previously Tele-Direct) launched BonVoyage.com, an Internet travel service that puts business and vacation travel resources at the customer's fingertips. Quebecers can plan trips, buy tickets and make reservations 24 hours a day, seven days a week. BonVoyage.com will be launched in Ontario in 1999.

As more activities become Internet-enabled, the number of users is increasing, fuelling even greater demand for Internet access, services and products. This explains why data now accounts for about half the traffic volume moving over our networks, and why it's growing 10 times faster than voice. To sustain its leadership as a communications company, BCE is proving its mettle on the Internet.

Sympatico

Sympatico Internet service leads the market with more than half a million subscribers nationally, 200,000 of whom reside in Bell's territory. The national figure represents one out of every five Canadian Internet users, a 54 per cent growth over the previous year.

1-Meg Modem

Unveiled by Nortel Networks in 1998, the remarkable 1-Meg Modem handles one million bits of information per second — 17 times faster than a 56K modem — and provides always-on connections, so there's no need to dial-up each time. What's more, it does all this over ordinary copper phone lines. Sales of the 1-Meg Modem topped US$1 billion within eight months of its introduction — making Nortel Networks the leader in high-speed Internet access.

Nortel Networks

Today's enterprise must communicate with employees, customers, suppliers and partners over secure networks, combining voice and data and spanning vast distances. Nortel's 1998 merger with Bay Networks, creating Nortel Networks, was designed to give Nortel a leadership position in meeting this fast growing need. Unified Networks, unveiled just two months after the merger, promises seamless, cost-effective solutions that span data and telephony.

In response to the Internet's imperative for speed, Nortel Networks also embarked on wide-ranging changes designed to bring products to market faster.

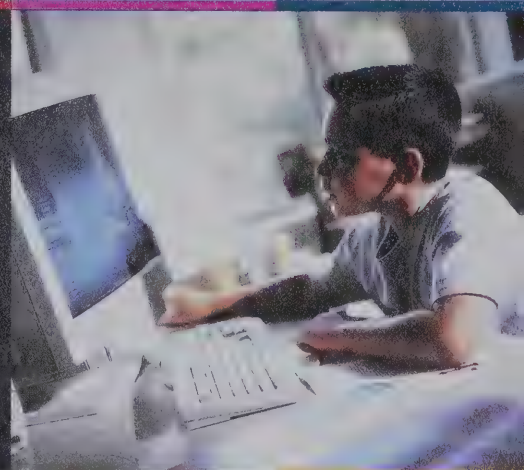
Sympatico: Canada's gateway to the Internet

The Internet is now so vast that even a routine search can yield hundreds of entries, only a few of which may be useful. How to reduce this Niagara of information to manageable size? One answer is a portal, which organizes information that's relevant to how you work and play.

With its half-million subscribers, Sympatico is emerging as "the" portal for Canada's Internet users.

Bell Canada University Labs

Bell will be investing $35 million over three years to create a unique virtual, Web-enabled campus connecting Ontario and Quebec universities and leading-edge researchers. Through a collaborative intranet – a "collaboratory" – they will be linked to one another and to BCE companies to develop advanced Internet applications and to promote Canadian innovation and intellectual property development. The collaboratory will significantly shorten the road from bright idea to brilliant product.



NOTABLE NUMBERS

750,000
page views per day of the Sympatico home page

50%
annual growth in Canadian Internet users

Bell ActiMedia

Canada's leading directory publisher made significant inroads on the Internet throughout 1998.

This explains why the former Tele-Direct changed its name to Bell ActiMedia early in 1999—to reflect a closer alliance with the Bell family and greater involvement with interactive media.

In partnership with the Toronto Star, Bell ActiMedia launched toronto.com, one of the world's most comprehensive city Web sites. Bell ActiMedia is also partnering with other BCE companies, notably our e-commerce specialist BCE Emergis.

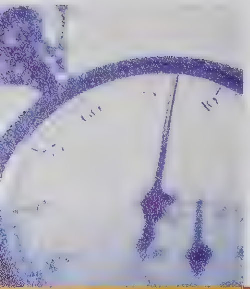
BCE Emergis

To seize on emerging opportunities, in August Bell Canada's electronic business solutions division and MPACT Immedia announced their merger, creating one of the largest e-commerce companies in the world with Bell Canada holding a 65 per cent interest. In January, the company was renamed BCE Emergis.

Early in 1999, BCE Emergis, Bell Canada and Microsoft Canada were selected by e-route inc.—owned by a group of Canadian banks—to enter into exclusive contract negotiations to provide an electronic bill presentment service. Electronic bill presentment enables consumers and businesses to receive, review and pay bills electronically. The potential efficiencies for customers and banks is enormous—as is the size of this emerging market.

on the phone

How our telephone business remains central to what we do



For well more than a century, Bell Canada has delivered superior telephone service to the people of Quebec and Ontario. We have led technological changes to ensure that service and quality remain robust.

First Rate is customers' first choice Introduced early in 1998, First Rate is a runaway best seller—and no wonder! It gives residential customers precisely what they want: superior value and simplicity. One million customers signed up in the first month, and by year-end more than four million were on board. First Rate demonstrates Bell's determination to stem the erosion of its long distance market share through aggressive pricing and innovation.

First Rate at a glance

- 10 cents/min. long distance rate anywhere in Canada on weeknights and weekends and, no matter how long the customer talks, the monthly fee is capped at $20!
- 20 cents/min. to the U.S. evenings and weekends.
- During peak hours, residential customers benefit from a 25 per cent discount on calls to all destinations.

Bell has responded to the challenge of total competition in the long distance market by introducing innovative services and rate packages, including the First Rate long distance plan.

First Rate

First Rate fulfills our promise to compete on price and service. The plan proved so attractive that Bell signed up 4.1 million customers by year-end 1998, and forced the competition to play catch-up with similar plans of their own.

Significantly, some 40 per cent of First Rate customers enrolled through Bell's automated telephone and Internet ordering services. This demonstrates Bell's leadership in providing convenient, time- and cost-saving technological innovations.

Western Expansion

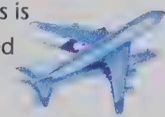
Bell Canada's 1998 promise to provide national service took a giant step west early in the new year, when Bell acquired a 20 per cent stake in Manitoba Telecom Services Inc. (MTS). From this operating alliance within Manitoba, Bell and MTS now have a springboard for further expansion. The partners will found a new telecommunications company to pursue business opportunities in Alberta and British Columbia.

Nortel Networks

While Nortel Networks continues to grow its leading-edge network and wireless technologies, its traditional business with telephone companies remains an important aspect of its business. In 1998 worldwide sales of equipment to carriers was approximately $6.2 billion, a nine per cent increase over the previous year.

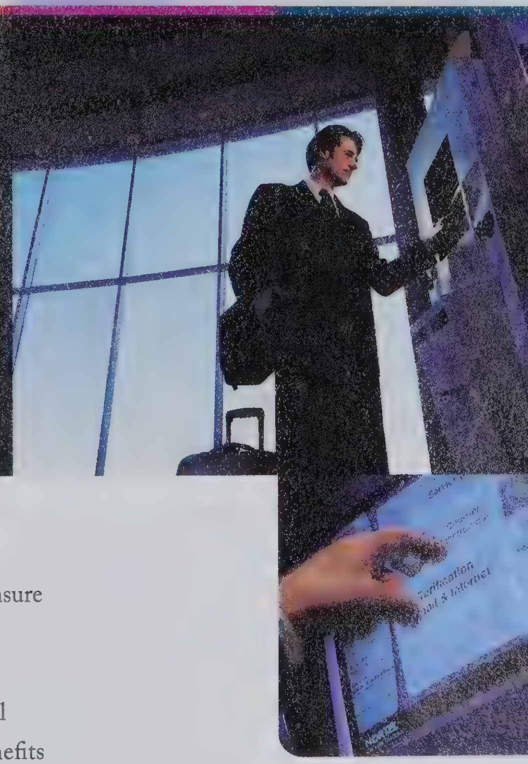
Bell lands airport contract

In November, Bell Canada won a bid to install 11 of Nortel Networks' Millennium multimedia terminals at Montreal airports. The touch sensitive screens offer secure access to the Internet, e-mail, AOL, CompuServe, as well as travel and reservation services, so busy travellers can make even an airport wait productive. This is just the first wave of a projected vast network of public multimedia terminals — which may ultimately replace the phone booth.



Local Service Improvement

Even with all its leading edge services, Bell hasn't lost sight of basic service to local customers. At the end of its first year, the four-year $200 million Local Service Improvement Program is on track, bringing single-line service to rural customers, increasing calling areas, and delivering greater choice and value throughout Ontario and Quebec.



NOTABLE NUMBERS

8.5%
Canadian local and long distance market growth in 1998

15-20%
estimated annual growth in data services

Local Service Improvement

As part of Bell Canada's core business, the wireline infrastructure requires continuous maintenance to ensure excellent service no matter where customers choose to live and work.

In 1998 Bell Canada embarked on a four-year Local Service Improvement Program that particularly benefits those living in rural communities. At the end of the program's first year, approximately 200,000 rural customers no longer have to pay a premium for single-line service. The program also enables Bell to introduce enhanced local services such as call waiting and caller I.D. — to areas where they were previously unavailable.

the way is wireless

How we're positioned for growth in an increasingly wireless world

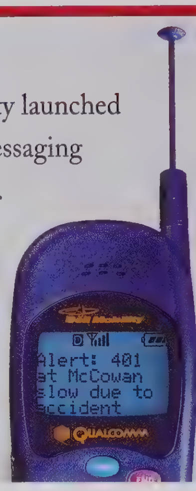
BCE enjoys several advantages in wireless markets around the world. Bell Mobility has two million cellular, PCS and paging customers at home. Nortel Networks is one of the world's leading equipment and technology providers. And Bell Canada International (BCI) has an aggressive presence in some of the most dynamic developing economies. Companies in which BCI has invested now provide service to close to three million customers.

Growing in Taiwan

Emerging economies, with their pent-up need for basic phone service, offer spectacular growth potential for wireless telecoms. Taiwan is a good example. Since the network was launched in late 1997, BCI's KG Telecom has expanded to serve more than 560,000 subscribers through internal growth and a recent acquisition.

You have mail

In June 1998, Bell Mobility launched the most extensive text messaging service in North America. PCS customers now have access to personalized, timely bulletins, weather, stock quotes, traffic, reminders—even horoscopes.



BCE Mobile

Under the Bell Mobility banner, BCE Mobile led the Canadian wireless market, by attracting more than 250,000 new cellular and PCS subscribers in 1998, to end the year with more than two million total subscribers. Innovations made possible by the digital format of PCS, such as messaging, e-mail and other Internet-enabled services, will attract even more customers. Calling plans also had a positive impact, including the extension of our wireline First Rate long distance plan to mobile customers.

But perhaps the most significant potential is in the increased bundling of wireless and wireline services. Bundled services will add significant value and demonstrate how BCE companies can combine their capabilities to create new possibilities for our customers.

Canada's lightweight champ

In November, Bell Mobility unveiled Sony's new D-WAVE Zuma. About the size of a deck of cards, this digital featherweight is the smallest and lightest (150 grams) handset on the market. Yet it packs all of today's and tomorrow's features—including data communications.

Bell Canada International

BCI pursues opportunities primarily in developing economies where growth potential is highest. These nations recognize that a modern communications infrastructure is essential to growth. They also realize that conventional

pole-and-wire systems are far more expensive and time consuming to build than wireless alternatives which can be set up in months at a fraction of the cost. The social and economic benefits for the nation are enormous — as are the benefits for service providers.

BCI has a major presence in Latin America and the Asia-Pacific region. Through its Colombian subsidiary COMCEL, BCI acquired a majority interest in OCCEL, a cellular operator in Colombia's Western region, to become the country's leading mobile phone company. The two companies now have about half of Colombia's cellular subscribers and cover close to 80 per cent of the population. They're also realizing significant operational efficiencies.

Wireless office on the way

Joint trials by Bell Mobility, GE Capital IT Solutions and Microsoft suggest that tomorrow's office worker will be able to do away with wires and walls. E-mail, messaging, database access, the Internet and more could soon be available over a PCS handset, palmtop or other mobile computing device.

Nortel Networks works on SUNDAY

A world leader in wireless equipment and know-how, Nortel Networks has been a strategic supplier to SUNDAY, one of Hong Kong's leading mobile phone operators, since 1996. SUNDAY awarded Nortel Networks a series of expansion contracts worth US$42 million in February 1998, followed by a further US$155 million contract covering the next 24 months.

Korea welcomes BCI

In its first major foreign investment in Korea's telecom industry, BCI will acquire approximately 24 per cent of Hansol PCS for $252 million. Fast-growing Hansol had 1.4 million subscribers at year end 1998 and a national license that will spur further growth. The investment not only extends BCI's reach, it nearly doubles the number of managed subscribers in key markets.

NOTABLE NUMBERS

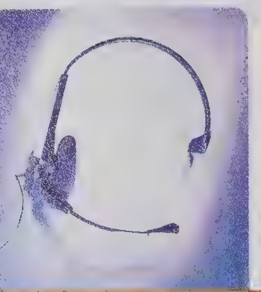
470,000,000
estimated number of mobile customers worldwide by 2001

37%
estimated penetration of wireless service in Canada by 2003

In 1998, BCI's Mexican consortium, Axtel, was awarded the spectrum to provide national, fixed-wireless local service. Axtel's shareholders will invest up to US$250 million to launch the service. With the country's large population and low penetration of telephone service, the project has enormous potential.

In early 1999, BCI was awarded a license to provide local phone and value-added services via a fixed wireless network to Brazil's Northeast region. The region covers 16 states, including the city of Rio de Janeiro, and is home to nearly 90 million people. Also in January 1999, BCI acquired 51 per cent of a Venezuelan company with national licenses for value-added and private network services. BCI plans to use a new wireless technology known as local multipoint distribution system to develop the network, and then lever its Venezuelan experience to develop similar projects in other markets.

the power of broadband



How we're keeping pace with the needs of our enterprise customers coast-to-coast

With the launch of Bell Nexxia, the promise of a national broadband network was fulfilled early in 1999. Bell Nexxia will own and operate one of the most advanced fibre optic networks in the world.

Nortel Networks number one in call center systems

According to the latest figures, Nortel Networks ships two of every five call centre systems in North America. Its DMS-100 and new Symposium Norstar, introduced in 1998, enable superior customer service via voice, data, video and fax. It's part of the Unified Networks approach that encompasses solutions to customers' current and future needs.

Bell Nexxia

Bell Nexxia had its start in 1998 with the purchase of fibre optic links between Toronto and the West. The remaining links, notably connections into Atlantic Canada and the U.S., including two separate routes between New York City and Montreal and Toronto, were in place by year end.

Bell Nexxia will offer Internet Protocol (IP)-based services initially to mostly large, national customers who communicate with branches, suppliers and customers across vast distances. The offering includes extranets (a closed Internet community typically linking a company and its suppliers and customers), wide-area networks and managed networks, along with traditional voice services such as 800 and 900 service. Customers gain the convenience of a single supplier for all their communications needs, along with the support of a world leader in communications.

Bell Nexxia extends customers' reach

Bell Nexxia, our national broadband company, will serve customers on one of the world's most advanced broadband fibre optic networks. Bell Nexxia will deliver seamless, end-to-end communications services, including Internet, extranets, wide-area networks, as well as voice, 800 and 900 services. The company will offer coast-to-coast as well as U.S. coverage.

CIBC First Bell Nexxia Customer

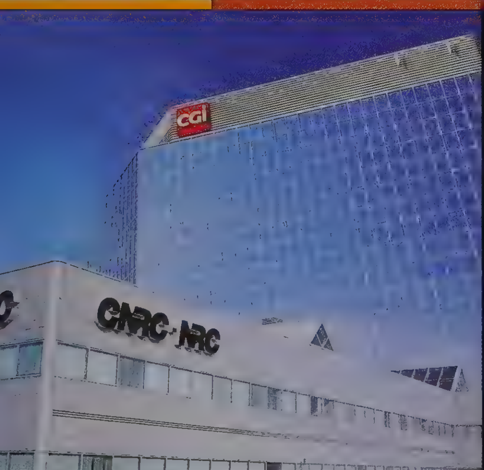
Bell Nexxia's first customer, the Canadian Imperial Bank of Commerce's INTRIA subsidiary, signed on in December 1998. The five-year, $120 million deal is for the provision of cross-Canada network services to CIBC's transaction processing subsidiary. The contract strengthens CIBC's competitive edge in electronic banking, linking branches, 60,000 point-of-sale merchant locations and 3,700 automated banking machines. For Bell Nexxia, it provides momentum for more deals to come.

e-commerce

While Bell Nexxia manages the "highway" over which customer data flows, it is also positioned to offer the "vehicle." Increasingly, this means e-commerce applications which enable consumers to shop over the Internet and businesses to communicate and manage relationships with suppliers, partners and clients.

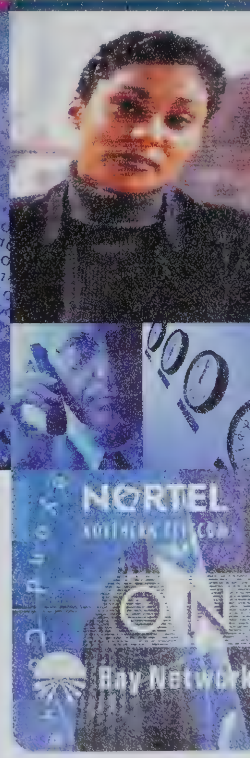
The power of Unified Network Management

Less than two months after its US$6.9 billion merger with Bay Networks, Nortel Networks was ready to show why the deal makes so much sense for customers. The Nortel Networks brand reinforces the company's leadership in providing high value network solutions to a diverse and growing base of telephony and data customers worldwide. Unified Networks blend routing, optical, wireline, wireless, switching and Internet Protocol technologies in a seamless manner to deliver service predictability and security.



NRC picks CGI

CGI, Canada's largest independent IT consulting firm, manages information systems and technologies so customers are free to concentrate on core business. In July, CGI won a $20 million outsourcing contract from the National Research Council of Canada (NRC). The landmark agreement covers some elements of support for the NRC's enterprise resource planning (ERP) system, one of the fastest growing sectors in IT. CGI is 43 per cent owned by BCE.



NOTABLE NUMBERS

100%
expected annual growth in e-commerce over next few years

4 out of 7
projected number of Canadian households on line by 2004

BCE Emergis

In terms of growth and new business, 1998 was a landmark year for BCE Emergis. Working with our national broadband company, the two won a contract for the world's largest extranet, the Automotive Network Exchange (ANX), a joint project of the Big Three American automakers. With ANX, each automaker deals with a centralized hub instead of hundreds of individual suppliers, helping to trim costs.

BCE Emergis has several other significant projects to its credit, including an extranet for Quebec's workers' compensation board, a solution for electronic delivery of mortgage appraisals and a full suite of network-centric e-commerce solutions.

high achievement

How our satellite services are beaming more benefits to people and businesses

The growing demand for entertainment, business and education services is spurring an ever greater need for bandwidth. While terrestrial networks expand to fill that need, some services are more efficiently delivered via satellite. From direct-to-home (DTH) TV and data networks to Internet access and telemedicine, satellites represent yet another facet in the scope of services we provide.

Programmed for success

In a first foray into programming, BCE Media acquired 18.9 per cent of Ethnic American Broadcasting Company (EABC) for $44 million and invested an additional $28 million in notes. EABC's 10 TV channels and four radio services reach more than 10 million U.S. households where neither English nor Spanish is spoken. Pending CRTC approval, the service will be expanded to serve Canadian customers as well.

Bell ExpressVu flying high

Canada's leading direct-to-home satellite company went head-to-head with cable in 1998, offering consumers a better deal: superior picture and sound, more programming (more than 100 TV channels), greater flexibility and improved financing. The results were impressive. From a standing start, Bell ExpressVu now has some 200,000 subscribers – the sky's the limit.

BCE Media

BCE's sky-borne services are chiefly delivered through BCE Media and its affiliates. The BCE Media group will use its satellite-based infrastructure to beam entertainment and business services across North America. The group includes Bell ExpressVu, Canada's leading direct-to-home (DTH) satellite TV service provider, and Telesat Canada, one of the world's leading satellite companies.

In addition to its management of satellites and its satellite TV offering, the BCE Media group markets a wide range of satellite services to businesses such as training and distance learning, telemedicine, and remote tracking and it is the exclusive Canadian seller of Iridium satellite services. It is currently exploring a partnership with BCE Emergis to deliver Internet service to businesses, and to remote schools and communities via satellite.

Early in 1999, BCE Media took a significant step toward providing programming over its network by acquiring an 18.9 per cent interest in Ethnic American Broadcasting Company. The company also filed a number of applications with the Canadian Radio-television and Telecommunications Commission (CRTC), including for licenses to offer French and English pay-per-view services and a travel channel. Decisions on these and other applications are expected in 1999.

Bell ExpressVu

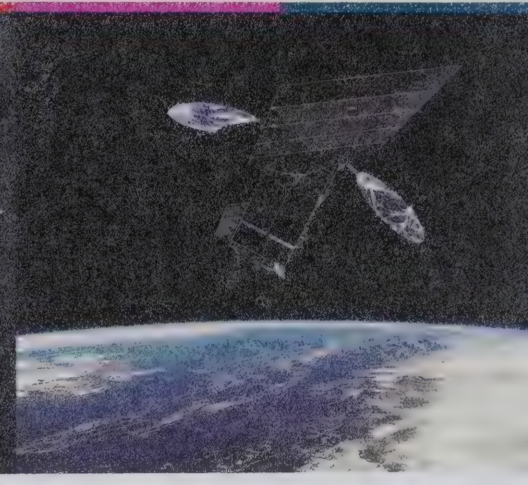
Right from Bell ExpressVu's launch in September 1997, it was clear that Canadian consumers welcomed a better alternative to cable TV. Bell ExpressVu added 10,000 to 20,000 new customers every month, to become the satellite TV leader with some 200,000 customers by the end of February 1999.

Bell ExpressVu offers more than 160 digital channels, including pay-per-view and audio channels. With Telesat's scheduled launch of the Nimiq direct broadcast satellite in the spring of 1999, Bell ExpressVu will provide more than 200 channels.

In 1998, an equipment financing plan helped make the service even more accessible. Cable customers responded by switching, attracted by Bell ExpressVu's superior image and sound, larger channel selection and greater flexibility. Bell ExpressVu's national distribution network includes more than 5,000 points of sale, as well as Bell World/Espace Bell stores opening in 1999.

Power in the sky When Telesat launches Nimiq in 1999, it will be Canada's most powerful direct broadcast satellite. Eagerly anticipated by Bell ExpressVu, Nimiq will provide a powerful platform for beaming quality service into living rooms across Canada. The extra power of Nimiq translates to a smaller dish size, to greater dependability, and to a "footprint" that covers both Canada and the U.S. Satellite TV signals are currently carried by Telesat's Anik fleet of medium-power satellites.

Dishing it up on the Internet Telesat Canada's DirecPC service turns the information highway into the information skyway. The service offers high-speed Internet access over satellite facilities. With a small adjustment to your personal computer and your own small satellite dish, you're fully connected. DirecPC is also an important element in bringing Internet access to Canadian schools coast-to-coast under the federal government's SchoolNet program in which Bell Canada plays a major role.



NOTABLE NUMBERS

1,500,000
estimated number of direct-to-home satellite TV subscribers in Canada by 2001

52%
Bell ExpressVu current market share of Canadian satellite TV market

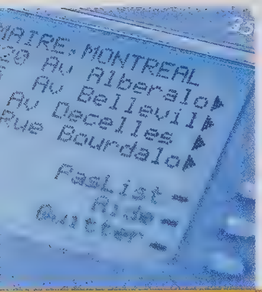
Telesat Canada

A pioneer in satellite design, operation and maintenance, Telesat is doubling its capacity to deliver broadband services throughout North America. This is in preparation for the new "open skies" agreement between Canada and the U.S., which comes into effect in March 2000. Telesat is already the leader in wireless data networks nationwide.

While Telesat's traditional business is with broadcasters, the company also offers private data networks. Some customers choose satellite over terrestrial transmission for its greater efficiency over large geographic areas. It is typically used for electronic banking, credit card verification, travel reservations and retail inventory management. These services are now carried by the two Anik E satellites, but will be migrated to the Anik F series of satellites. Anik F1, one of the world's most advanced communications satellites, is scheduled to be launched in the first quarter of 2000, and Anik F2 in 2002.

strong connections

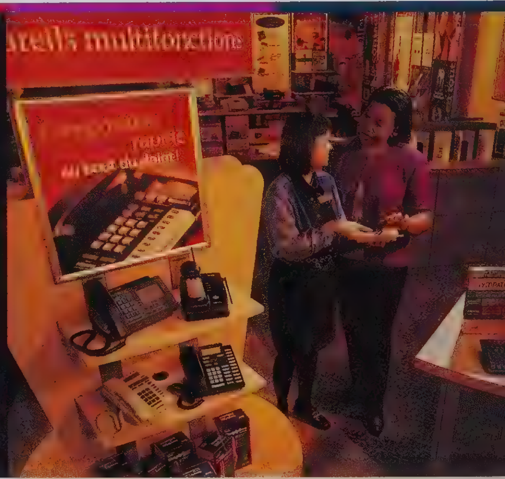
How integrated solutions are the key to the needs of our customers



Increasingly, the value of BCE companies resides in how they interconnect to create innovative products and services. The process has only just begun, but it's already rebuilding our image as a company that is fiercely committed to the customer.

Vista 350 has your number

What was that number again? Now full directory assistance is available free to every Vista 350 customer. This includes addresses and even postal codes, where available. The Electronic Phone Book, activated by a touch of a button, joins the other Vista 350 interactive services, including telephone banking, weather forecasts and movie listings.



When SimplyOne was introduced in 1998, it was a harbinger of significant change to come. An integrated voice mailbox for Bell Canada and Bell Mobility customers, SimplyOne signaled a new kind of partnership between BCE companies—a partnership that benefits the customer by combining capabilities from across the group. SimplyOne has recently been joined by an Integrated Message Centre and the extension of Bell Canada's First Rate calling plan to Bell Mobility residential customers.

Most recently, our wireline and wireless companies joined forces to create the Bell World/Espace Bell retail network, which will replace existing stores and showcase BCE companies' products and services. A new company, Bell Distribution Inc., will manage the retail operations, which mix corporate, franchise and dealer-owned stores. Bell World/Espace Bell will also sell Bell ExpressVu satellite TV service and Sympatico Internet service—as well as new services and products that are just around the corner.

What's in store at Bell World

Opening in 1999, Bell World/Espace Bell will be a unique one-stop shopping experience for communications products and services. It also symbolizes the integrated strengths of BCE, where Bell Canada, Bell Mobility, Bell ExpressVu, Sympatico, and others can be showcased in one convenient location.

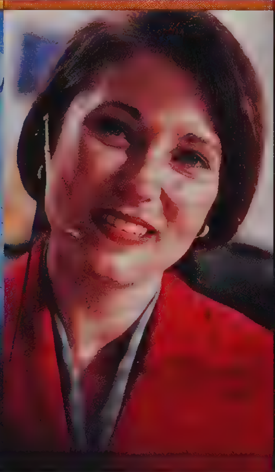
With so many leading communications companies working under the BCE banner, the possibilities for integrated services are endless. For example, Vista 350 interactive phone customers now have free directory services courtesy of Bell ActiMedia.

Business Services

The unique value inherent in integrated solutions will benefit business customers as well. For example, business customers now have access to the combined strengths of Bell Nexxia (national broadband services), Bell ActiMedia (multimedia), Bell Mobility (wireless), BCE Emergis (e-commerce), Nortel Networks (unified voice and data networks) and CGI (systems integration and outsourcing). What's more, these services can be tailored to each customer's needs.

Bell Mobility seconds First Rate

Bell Canada's First Rate plan proved so popular, Bell Mobility couldn't resist offering the same discounts on long distance to its own customers in October 1998. It's yet another example of how the customer benefits when BCE companies work together.



The Nortel Networks–BCI Team

Nortel Networks and BCI have entered into a Co-operation Agreement and will work together to increase their access to new telecom opportunities. As part of the agreement, Nortel Networks invested $150 million in BCI. That amount will then be invested by BCI in projects where BCI plays a significant operating and managerial role and where Nortel Networks acts as a preferred supplier.

The CGI Group

BCE's increased stake in the CGI Group responds to customers' growing need for integrated services as communications and information technology converge. This trend can only grow as technological complexity and change overwhelm most companies' internal resources. Today it makes more sense to outsource to a specialist in order to better concentrate on core business.

CGI is that specialist. The largest information technology (IT) consulting company in Canada and the sixth-largest in North America, CGI provides enterprise-wide solutions and outsourcing for all IT needs. CGI manages current and emerging technologies to ensure that customers are handling change productively and cost-effectively.

Corporate Governance

A number of changes have taken place involving governance issues within the corporation.

L.R. Wilson retired as an officer and employee of the corporation but will continue as non-executive Chairman of the Board. He will also serve the corporation through his chairmanship of the recently formed Corporate Governance Committee.

Three new directors will stand for election at the BCE Inc. Annual and Special Meeting in April 1999. Micheline Charest is co-founder, Chairman of the Board and co-CEO of CINAR Corporation and a member of the Board of Directors of BCE Mobile Communications Inc. Paul M. Tellier, is President and CEO of Canadian National Railway Company and a member of the Bell Canada Board of Directors. Thomas E. Kierans is president and CEO of the C.D. Howe Institute and a member of the Bell Canada Board of Directors.

Gerald J. Maier, Chairman Emeritus, TransCanada PipeLines Limited, and a director of BCE since 1987, will retire from the board coincident with the corporation's Annual and Special Meeting in April. Mr. Maier has served the corporation extremely well and his counsel will be missed.

In its ongoing efforts to ensure that the highest standards of corporate governance are developed and maintained within the corporation, the BCE Board of Directors has replaced the Management Resources and Nominating Committee by two separate committees: the Corporate Governance Committee (CGC) and the Management Resources and Compensation Committee (MRCC). The CGC reviews and reports on a variety of issues associated with the Board of Directors including board candidates, remuneration and effectiveness. It also assists newly appointed board members in becoming acquainted with the corporation and its governance process. The MRCC reviews and reports on matters primarily related to the appointment and compensation of management.

Environmental Affairs

Bell Canada has for a number of years excelled in the area of corporate environmental affairs. This has included extensive internal recycling programs within Bell as part of its Zero Waste program but also extends into areas such as energy efficiency, management of hazardous materials and environmental site evaluations. Additional information on Bell Canada's environmental activities can be found on its Web site at www.bell.ca.

The accompanying consolidated financial statements of BCE Inc. and its subsidiaries (collectively BCE), and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgements of management, and in their opinion present fairly BCE's financial position, results of operations and changes in financial position. Financial information presented elsewhere in the annual report is consistent with that in the financial statements.

Management of BCE, in furtherance of the integrity and objectivity of the financial statements, has developed and maintains a system of internal controls and supports an extensive program of internal audits. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements and that BCE's assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, consisting solely of outside and unrelated directors. The Audit Committee reviews the Corporation's annual consolidated financial statements and other information in the annual report, and recommends their approval by the Board of Directors. Additional responsibilities of the Audit Committee are outlined on page 67 of this annual report. The internal and the shareholders' auditors have free and independent access to the Audit Committee.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants, and their report is presented below.

President and Chief Executive Officer | *Chief Financial Officer* | *Vice-President and Controller*

February 22, 1999

auditors' report

To the Shareholders of BCE Inc.

We have audited the consolidated balance sheets of BCE Inc. and its subsidiaries as at December 31, 1998 and 1997 and the consolidated statements of operations, retained earnings and changes in financial position for the years then ended as they appear on pages 39 to 64. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants

Montréal, Québec
February 22, 1999

Management's Discussion and Analysis (MD&A) of 1998's financial results focuses on the principal operating groups of BCE Inc. and includes a review of the operations and financial situation of each operating group. BCE Inc. and its subsidiaries are collectively referred to herein as BCE. This MD&A should be read in conjunction with the audited consolidated financial statements contained on pages 39 to 64 of this annual report. Bell Canada, BCE Mobile Communications Inc. (BCE Mobile), Northern Telecom Limited (Nortel Networks) and Bell Canada International Inc. (BCI) publish a more detailed discussion and analysis of their results of operations and financial condition in their year-end documents. You may obtain copies of these documents from the Investor Relations department of BCE Inc. (see page 68).

This MD&A contains forward-looking statements with respect to either BCE Inc. or certain of its subsidiary or associated companies. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. BCE Inc. considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of BCE Inc. and its subsidiary or associated companies, may ultimately prove to be incorrect. Factors which could cause actual results or events to differ materially from current expectations are discussed on pages 33 and 34 under "Risk Factors".

RESULTS BY OPERATING GROUP

Highlights

As a result of the dilution of BCE's ownership interest in Nortel Networks from approximately 51% to 41% following Nortel Networks' acquisition of Bay Networks, Inc. (Bay Networks), effective September 1, 1998, on a prospective basis, BCE has changed its accounting for Nortel Networks from full consolidation to equity accounting. Accordingly, BCE's consolidated statement of operations includes Nortel Networks' statement of operations on a line-by-line basis up to and including August 31, 1998 and reflects, as of September 1, 1998, in other income, BCE's share of the net earnings to common of Nortel Networks. Furthermore, BCE's consolidated balance sheet as at December 31, 1998 does not include Nortel Networks' assets and liabilities on a line-by-line basis.

BCE's 1998 net earnings before extraordinary item increased by $3,184 million compared with 1997. Included in BCE's 1998 net earnings are special net gains of $2,913 million resulting primarily from the $3,613 million non-cash gain on the reduction of ownership in

1. Contribution to Net Earnings Applicable to Common Shares[1,2]

($ millions)	1998	1997	Increase (Decrease)
Canadian Telecommunications			
Bell Canada	**799**	852	(53)
BCE Mobile	**(1)**	45	(46)
Other Canadian Telecom	**347**	21	326
	1,145	918	227
Nortel Networks	**3,227**	581	2,646
International Telecommunications			
Bell Canada International	**(48)**	(56)	8
Other International Telecom	**519**	119	400
	471	63	408
Corporate	**(146)**	(148)	2
Intercompany eliminations	**(99)**	–	(99)
Net earnings before extraordinary item	**4,598**	1,414	3,184
Extraordinary item	**–**	(2,950)	2,950
Net earnings (loss)	**4,598**	(1,536)	6,134
Dividends on preferred shares	**(93)**	(74)	(19)
Net earnings (loss) applicable to common shares	**4,505**	(1,610)	6,115
Special net (gains) charges[3]	**(2,913)**	2,883	(5,796)
Earnings excluding special items (baseline earnings)	**1,592**	1,273	319
Earnings (loss) per common share			
– Before extraordinary item	**7.07**	2.11	4.96
– Extraordinary item	**–**	(4.64)	4.64
– Net earnings (loss) per common share	**7.07**	(2.53)	9.60
– Baseline earnings per common share	**2.50**	2.00	0.50

1 Certain comparative figures have been restated to conform with the current year presentation. Effective January 1, 1998, the Directories business is no longer shown separately. The directory business division of Tele-Direct (Publications) Inc. (which was renamed Bell ActiMedia Inc. (Bell ActiMedia) on January 29, 1999) is now included in Bell Canada. Other directory operations are included in Other Canadian Telecom and Other International Telecom.

2 In conjunction with the discontinued application of regulatory accounting provisions on December 31, 1997, the impact of intercompany sales of equipment from Nortel Networks to BCE's regulated telecommunications subsidiary and associated companies was eliminated beginning January 1, 1998.

3 Includes BCE's share of gain on reduction of ownership in subsidiary and associated companies, amortization of Bay Networks intangible assets and purchased in-process R&D from other acquisitions, restructuring and other charges, gains on disposal of investments, extraordinary item and BCI's results.

2. Revenues[1,2]

($ millions)	1998	1997	% Change
Canadian Telecommunications			
Bell Canada	**10,561**	10,490	1
BCE Mobile	**1,294**	1,253	3
Other Canadian Telecom	**1,332**	784	70
	13,187	12,527	5
Nortel Networks	**14,253**	21,466	(34)
International Telecommunications			
Bell Canada International	**772**	418	85
Other International Telecom	**71**	74	(4)
	843	492	71
Corporate	**31**	32	(3)
Intercompany eliminations	**(860)**	–	n.m.
Total	**27,454**	34,517	(20)

n.m.: not meaningful

1 Certain comparative figures have been restated to conform with the current year presentation. Effective January 1, 1998, the Directories business is no longer shown separately. The directory business division of Bell ActiMedia is now included in Bell Canada. Other directory operations are included in Other Canadian Telecom and Other International Telecom.

2 In conjunction with the discontinued application of regulatory accounting provisions on December 31, 1997, the impact of intercompany sales of equipment from Nortel Networks to BCE's regulated telecommunications subsidiary and associated companies was eliminated beginning January 1, 1998.

Nortel Networks partially offset by BCE's share of Nortel Networks' amortization of intangibles related to the Bay Networks acquisition and the amortization of purchased in-process research and development related to other acquisitions. This compares with total special net charges of $2,883 million in 1997, which included an extraordinary item of $2,950 million.

Excluding the impact of special items, BCE's baseline earnings increased by $319 million (25%) compared with 1997. The improved results primarily reflected:

- increased earnings contribution at Bell Canada of $301 million;
- increased earnings contribution at Nortel Networks of $103 million;
- increased earnings contribution at Other International Telecom of $71 million;

partially offset by:

- decreased earnings contribution at BCE Mobile of $46 million; and,
- the introduction of intercompany profit eliminations of $99 million.

Revenues decreased by $7,063 million (20%) in 1998 compared with 1997 primarily as a result of Nortel Networks being equity accounted for effective September 1, 1998. Excluding Nortel Networks, revenues increased $775 million (6%) in 1998 compared with 1997 mainly due to increased revenues at Other Canadian Telecom and BCI.

During 1999, BCE will continue to pursue new sources of revenues and explore ways of fostering greater integration of strategies across the BCE group. One example is the agreement between Nortel Networks and BCI under which Nortel Networks purchased $150 million of convertible unsecured subordinated debentures (Debentures) due 2002 of BCI in February 1999. In addition, the two companies signed a co-operation agreement whereby the proceeds from the Debentures will be invested by BCI in projects where Nortel Networks will act as a preferred equipment supplier. Another example is the announcement, on January 7, 1999, by Bell Canada and Bell Mobility Cellular Inc. of the formation of a new company, Bell Distribution Inc., that will merge their retail operations and stores across Ontario and Québec.

Extraordinary item and change in accounting policies

As at December 31, 1997, BCE determined that most of its telecommunications subsidiary and associated companies no longer met the criteria necessary for the continued application of regulatory accounting provisions. As a result, BCE recorded an extraordinary non-cash charge of $2,950 million, net of an income tax benefit of $1,892 million and a non-controlling interest of $38 million. Also included in the extraordinary item was an after-tax charge of $97 million representing BCE's share of the related extraordinary item of its associated companies.

The operations of most of BCE's telecommunications subsidiary and associated companies no longer met the criteria for application of regulatory accounting provisions due to significant changes in regulation including the implementation of the price cap regime which replaced rate-of-return regulation effective January 1, 1998, and the concurrent introduction of competition in the local exchange market. Accordingly, BCE adjusted the net carrying values of assets and liabilities as at December 31, 1997 to reflect values appropriate under generally accepted accounting principles (GAAP) for enterprises no longer subject to rate-of-return regulation.

In conjunction with the discontinued application of regulatory accounting provisions, intercompany earnings on the sales from Nortel Networks to BCE's regulated telecommunications subsidiary and associated companies were eliminated on consolidation beginning January 1, 1998.

Canadian Telecommunications

Overview

BCE's Canadian Telecommunications group includes the

following subsidiaries and proportionately accounted for entities: Bell Canada, MPACT Immedia Corporation (which was renamed BCE Emergis Inc. on January 21, 1999), the domestic operations of Bell ActiMedia, BCE Mobile, Telesat Canada (Telesat), Bell Satellite Services Inc. (Bell Satellite Services), CGI Group Inc. (CGI), NewTel Enterprises Limited, Northern Telephone Limited, Northwestel Inc., Télébec ltée, and TMI Communications and Company Limited Partnership as well as the following associated companies: Bruncor Inc., Maritime Telegraph and Telephone Company, Limited, and Teleglobe Inc. (Teleglobe). These entities provide a full range of domestic and international telecommunications services to Canadian customers as well as information technology services.

Earnings

The contribution of the Canadian Telecommunications group to BCE's net earnings before extraordinary item increased by $227 million (25%) in 1998. Bell Canada's contribution to the Canadian Telecom group of $799 million was $53 million lower compared with 1997. Excluding special net charges of $354 million in 1998, mainly related to restructuring and other charges of $392 million, Bell Canada's contribution to the Canadian Telecom group increased by $301 million (35%) compared with 1997. Bell Canada's increased earnings contribution was primarily related to lower depreciation and amortization coupled with marginal revenue growth and a small decrease in operating expenses.

BCE Mobile's 1998 contribution was $46 million lower compared with 1997, mainly as a result of the anticipated start-up costs related to personal communications services (PCS). Other Canadian Telecom contributed $347 million in 1998, an increase of $326 million compared with 1997. The increase results mainly from a $315 million gain on reduction of BCE's ownership in Teleglobe following the acquisition of Excel Communications Inc. (Excel) by Teleglobe.

Canadian Telecommunications Revenues
(see table 3 below)

Bell Canada local and access services

Local and access services revenues, which are earned principally by connecting business and residence customers to Bell Canada's network and providing them with local area service, increased $396 million in 1998 due to:

- the impact of the $2.57 monthly residential local service rate increase which became effective January 1, 1998;
- network access services growth;
- increased payments made by users of private line digital services to access the local network; and,
- increased revenues from long distance competitors accessing the local network;

partially offset by:

- the impact of a local business rate decrease which became effective May 1, 1998.

Bell Canada long distance and network services

Long distance and network services revenues, which are earned by carrying long distance traffic and by providing network services such as private line and business data services, decreased $313 million for 1998 compared with 1997. Long distance revenues for 1998 decreased due to lower average prices which were partially offset by higher volumes. The lower average prices were primarily due to increased penetration of discount calling plans. Price reductions and concentrated marketing efforts led to an increase in long distance services volumes, as measured in conversation minutes, of 516 million (5.2%) for 1998, compared with 1997.

During 1998, Bell Canada's share of the long distance market increased by 1.2% to an estimated market share of 64.3% as at December 31, 1998, compared with an estimated market share of 63.1% as at December 31, 1997. The gain in market share, the first since the introduction of competition in the long distance market, reflected the success of Bell Canada's **First Rate** long distance discount calling plan. The decrease in long distance services revenues was partially offset by an increase in network services revenues for 1998, compared with 1997, due mainly to growth in digital data services and in digital frame-relay services.

On December 16, 1998, Bell Canada gave notice to the Stentor Operating Companies of the termination, effective December 31, 1999, of the connecting agreement which defines the rules of connection and payment between the Stentor Operating Companies, and the governance agreement concerning Stentor Canadian Network Management. New agreements are under negotiation which are intended to reflect the more competitive and less-regulated environment in

3. Canadian Telecommunications revenues

($ millions)	1998	1997	% Change
Bell Canada[1]			
Local and access services	**5,053**	4,657	9
Long distance and network services	**3,904**	4,217	(7)
Other	**1,604**	1,616	(1)
	10,561	10,490	1
BCE Mobile	**1,294**	1,253	3
Other Canadian Telecom	**1,332**	784	70
Total	**13,187**	12,527	5

1 Bell Canada reclassified certain sources of revenue within its three general categories of revenues to conform with Bell Canada's management of these revenue items. In addition, effective January 1, 1998, Bell Canada began reporting long distance and network settlements, local contribution and bad debts as operating expenses. These items had formerly been reported as reductions in revenues. Results for 1997 have been restated on a comparable basis. The impact of the above is to increase long distance and network services revenues and local and access services revenues by $1,153 million and $333 million, respectively, and to decrease other revenues by $242 million.

Canada's telecommunications industry, as well as the fact that Bell Canada will be originating and terminating traffic and exchanging strategic plans with alliance partners on its own behalf in the future. Bell Canada does not expect the financial impact from the foregoing to be material.

Other Bell Canada revenues

The main revenue streams in this category include revenues from the rental, sales and maintenance of terminal equipment, directory advertising, Internet access, network management services and revenues related to public telephones. Revenues in this category were essentially flat in 1998 compared with 1997 as increased revenues related to terminal equipment sales and Internet access were offset by the impact of the disposition of Bell Sygma's Telecom Solutions and International divisions to CGI, effective July 1, 1998.

Bell Canada revenues

During 1999, Bell Canada will seek growth in local and access services revenues driven by growth in network access services as well as in optional services, partially offset by an increase in local service competition and lower average local rates due to the continuing impact of the price cap regime. Bell Canada expects continued pressures from intense competition related to long distance revenues. In addition, Bell Canada will seek revenue growth in data network services and through the provision of emerging services such as broadband, and other Internet services as well as from the launch of Bell Canada's new Internet Protocol (IP)/broadband company, in the first quarter of 1999. The Canadian and United States operations of this company were named BCE Nexxia Inc., carrying on business under the name Bell Nexxia, and BCE Nexxia Corporation, respectively (collectively BCE Nexxia). Bell Canada will continue to pursue new sources of revenues through emerging technologies and will explore ways of integrating its business.

BCE Mobile revenues

Revenues at BCE Mobile increased in 1998 reflecting growth in wireless voice services revenues which increased mainly due to a 17% increase in the average number of subscribers, partially offset by an 8% decrease in average revenue per subscriber. The increase in wireless voice services revenues was partially offset by lower revenues from equipment sales mainly due to changes by BCE Mobile in its dealer compensation plan related to hardware pricing.

At December 31, 1998, there were 1,475,000 wireless voice customers, reflecting net additions of 254,000 or a 21% increase over last year.

The number of paging customers grew by 14% to 542,000 (from 475,000 a year earlier). Revenue per average pager subscriber decreased 14% mainly due to the effect of competitive pricing in the marketplace.

Other Canadian Telecom revenues

The increase of $548 million in revenues compared with 1997 was mainly due to the acquisitions of CGI on July 1, 1998, (CGI was accounted for as an investment at cost in 1997 and up to June 1998) and of Telesat in May 1998 (Telesat was accounted for as an investment at equity in 1997 and up to April 1998).

Canadian Telecommunications Operating Expenses

(see table 4 on page 26)

Bell Canada depreciation and amortization

The depreciation and amortization expense decrease of $384 million in 1998 compared with 1997 was primarily due to the write-down of capital assets and write-off of regulatory assets as at December 31, 1997, reflecting the impact of the transition from rate-of-return regulation, combined with the sale of real estate properties. The impact of these factors was partially offset by a reduction of capital asset lives compared with 1997 lives reflecting technological and market changes.

Bell Canada operating expenses

Operating expenses (excluding depreciation and amortization and restructuring and other charges) were essentially flat for 1998 compared with 1997 as the impact of workforce reduction and process improvement programs implemented in prior periods and lower long distance settlement payments were offset by costs associated with the January 1998 ice storm, increased rental charges related to the sale of real estate properties, and volume increases.

At December 31, 1998, the total number of employees at Bell Canada was 38,049, down 1,279 or 3.3% from December 31, 1997, mainly as a result of the sale of Bell Sygma's Telecom Solutions and International divisions to CGI. Total salaries and wages (including capitalized amounts and excluding payments made under workforce reduction programs) were $2,038 million, down $185 million from 1997. The 8.3% decrease in salary and wages is higher than the 3.3% decrease in the total number of employees due primarily to workforce reductions which occurred in 1997, partially offset by increased overtime related to the January 1998 ice storm.

During 1998, Bell Canada and its clerical and associated employees, represented by the Canadian Telephone Employees' Association, reached a new collective agreement. The new agreement will expire May 31, 2002. Bell Canada and its Operator Services employees and Craft and Services employees, represented by the Communications, Energy and Paperworkers' Union (CEP), started negotiations on October 15, 1998. The collective agreements expired on November 24, 1998 and November 30, 1998, respectively. On January 11, 1999, Bell Canada tabled a comprehensive offer of settlement in resolution of all outstanding issues with the Craft and Services employees. On the same day, Bell Canada also informed the Operator Services employees of plans to partner with Excell Global Services Inc., an international operator services provider, to create a new company to provide operator services to Bell Canada and other companies. On January 14, 1999, Bell Canada and the CEP both requested the appointment of a federal government conciliator to facilitate contract negotiations. The conciliation process began on February 1, 1999. On February 4, 1999, Bell Canada

4. Canadian Telecommunications operating expenses

($ millions)	1998	1997	% Change
Bell Canada			
Depreciation and amortization	2,230	2,614	(15)
Operating expenses	5,530	5,551	–
Restructuring and other charges	608	–	n.m.
	8,368	8,165	3
BCE Mobile	1,236	1,090	13
Other Canadian Telecom	1,252	667	88
Total	10,856	9,922	9

n.m.: not meaningful

and the CEP, after both agreeing that they had reached an impasse in conciliation, requested that the conciliators file their report with the federal Minister of Labour (Minister). On February 19, 1999, the Minister informed Bell Canada and the CEP of her decision not to extend the conciliation process in contract negotiations for the renewal of the Craft and Operator Services collective agreements. However, the Minister appointed two mediators to assist the parties in reaching an agreement. The right to strike or lock-out will be acquired on February 27, 1999.

Bell Canada restructuring and other charges

During the second quarter of 1998, Bell Canada recorded pre-tax charges in the aggregate of $608 million representing restructuring and other charges of $102 million and $506 million, respectively. The restructuring charges related to plans for rationalization of real estate and the integration of business units. Included in the charges are costs relating to lease terminations and associated costs and employee severance. Other charges include a provision for the costs of implementing local service competition and providing local number portability, to the extent such costs are estimated not to be recoverable. Also included are costs relating to the write-down of certain assets and other provisions.

During 1999, Bell Canada anticipates increased expenses related to revenue growth principally from emerging services, including BCE Nexxia. These costs are expected to be offset by the impact of workforce reduction programs and process improvement projects implemented in prior periods and benefits to be derived from Bell Canada's information systems and information technology modernization program. Bell Canada will continue to explore ways of improving its cost structure in 1999 in order to continue to be more competitive.

BCE Mobile operating expenses

Operating expenses at BCE Mobile were $1,236 million, $146 million higher compared with 1997 due to increases in wireless voice selling expenses and depreciation and amortization. The increase in wireless voice selling expenses was due to a 45% increase in wireless gross activations in 1998 compared with 1997, offset by a 7% decrease in costs of acquisition. The increase in depreciation and amortization expense mainly reflected the impact of a higher level of capital assets in 1998.

Other Canadian Telecom operating expenses

The increase of $585 million in operating expenses compared with 1997 was mainly due to the start-up costs at Bell Satellite Services and the acquisitions of CGI and Telesat.

Nortel Networks

Overview

Nortel Networks' operations include two operating segments: Carrier and Enterprise. The Carrier segment includes: products which are used by telecommunications operating companies to interconnect access lines and transmission facilities to provide local or long distance services, products to address wireless communications and products which transport voice, data, image and video communications between locations within a city or between cities, countries or continents. The Enterprise segment products are primarily private digital switching systems, usually located on the customer's premises, which permit voice, data, or multimedia terminals to communicate with each other, with or without the use of wide-area public telephone networks. While Nortel Networks reports its results in U.S. dollars, all amounts presented here are in Canadian dollars, except where otherwise noted.

Earnings

Excluding special items, primarily the non-cash gain on the reduction of BCE's ownership interest, BCE's share of the amortization of Bay Networks intangible assets and purchased in-process R&D assets from other acquisitions and one-time gains and charges, Nortel Networks contributed $679 million to BCE's earnings in 1998, representing an improvement of $103 million compared with last year. The $103 million improvement in earnings primarily reflected a substantial increase in operating earnings and investment and other income – net, partially offset by a substantial increase in interest expense.

The following discussion of Nortel Networks' results is based on results for the full twelve months of 1998. BCE's financial statements only reflect these results on a line-by-line basis up to and including August 31, 1998.

Product Line and Geographic Revenues

Revenues of $26,270 million for 1998 were 22% higher than the same period last year due to an increase in sales volume of approximately 19% and a weaker Canadian dollar of approximately 8% (Nortel Networks' revenues are translated from U.S. dollars to Canadian dollars; therefore, a weakening of the Canadian dollar positively impacts revenues), partially offset by price reductions of

5. Nortel Networks – Product line revenues[1]

($ millions)	1998	1997	% Change
Carrier segment			
Public carrier networks	**6,154**	5,633	9
Wireless networks	**5,580**	4,801	16
Broadband networks	**6,749**	4,690	44
	18,483	15,124	22
Enterprise segment (Enterprise networks)	**7,306**	5,383	36
Other segment	**481**	959	(50)
Total	**26,270**	21,466	22

1 Annual revenues by product line have been restated to reflect the repositioning of certain businesses, primarily divested businesses, within Nortel Networks' management structure. The primary effect of this reclassification was to move revenues from the Enterprise segment to Other as a result of the disposition of Nortel Networks' TTS Meridian Systems Inc. and Nortel Communications Systems Inc. distribution channels to WilTel Communications, LLC (the WilTel Transaction) and the Matra EricssonTelecommunications (MET) disposition.

6. Nortel Networks – Geographic revenues[1]

($ millions)	1998	1997	% Change
United States	**14,712**	11,520	28
Canada	**2,031**	1,906	7
Other countries			
Europe	**5,563**	4,830	15
Other	**3,964**	3,210	23
	9,527	8,040	19
Total	**26,270**	21,466	22

1 Revenues are based on the location of the customer rather than the location of the selling organization.

approximately 3% and divestitures of approximately 2%.

Tables 5 and 6 above show details of Nortel Networks' revenues by principal product lines and by geographic areas.

Carrier segment revenue growth of 22% in 1998 was largely driven by the growth in revenues of Nortel Networks' optical networking solutions and also reflected growth in all carrier lines of business. This revenue growth was attributable to a volume increase of approximately 17% and a weaker Canadian dollar of approximately 8%, partially offset by price reductions of approximately 3%. The 44% increase in broadband networks revenues in 1998 was driven by considerable growth across all regions. Wireless networks revenues increased 16% over 1997 levels as a result of considerable growth in sales in the Caribbean and Latin America (CALA) region, significantly increased sales in the United States, and substantially increased sales in Asia Pacific. This increase was partially offset by a significant decline in European revenues and substantially lower Canadian sales. Public carrier networks revenues increased 9% in 1998 as a result of higher sales in the United States and strong growth in Europe, offset by considerably lower sales in Asia Pacific and CALA, and significant decreases in Canada. North American revenues from traditional public carrier products are expected to continue to be negatively affected by the shift in capital spending from public carrier products to high bandwidth broadband products.

Enterprise segment revenues in 1998 increased 36% over the same period in 1997. This increase was due to growth across all major products and was primarily driven by the Bay Networks transaction. The increase in Enterprise segment revenues was attributable to a volume increase of approximately 27% and a weaker Canadian dollar of approximately 10%, partially offset by price reductions of approximately 1%. Enterprise networks revenue growth was a result of a considerable increase in revenues in the United States (primarily as a result of the Bay Networks transaction) and strong revenue increases in all other regions, except Canada which had moderately lower revenues.

United States

The increase of 28% in revenues from the United States was primarily the result of substantially increased revenues in enterprise networks, reflecting the acquisition of Bay Networks, substantially increased revenues in broadband networks and a weaker Canadian dollar. Revenues increased in public carrier networks, significantly increased in wireless networks, and declined substantially in Other (primarily the result of the WilTel Transaction). The increase in revenues from the United States over 1997 was also the result of substantially higher sales to interexchange carriers (IECs), independent telephone operating companies (IOCs), other United States customers and distributors (the latter two increases were primarily a result of the Bay Networks transaction). Excluding the contribution of Bay Networks, revenues in the United States increased significantly.

Canada

Revenues in Canada increased 7% compared with 1997 due to a weaker Canadian dollar and substantially higher sales in broadband networks, partially offset by considerably lower sales in wireless networks and significantly lower sales in public carrier networks. Sales to Bell Canada and other subsidiaries and related companies of BCE Inc. declined from their 1997 level, and sales to other Canadian customers showed a modest increase for the year.

Other countries

Revenues in Europe, Africa and the Middle East (including the Commonwealth of Independent States) increased 15% from 1997 due to significantly increased

revenues in enterprise networks, considerably increased revenues in broadband networks and a weaker Canadian dollar, partially offset by substantially lower revenues in Other (primarily the result of the MET disposition and the sale of the GSM Terminals business to the Nokia Group) and significantly lower revenues in wireless networks. Public carrier networks revenues increased from 1997.

Revenues in other markets, comprising CALA and Asia Pacific, increased 23% in 1998 when compared with 1997. In CALA, sales in wireless networks increased substantially and both enterprise networks and broadband networks sales rose significantly from 1997. Public carrier networks sales fell considerably compared with 1997. Revenues in Asia Pacific increased significantly in 1998, when compared with 1997, primarily driven by considerable increases in wireless networks revenues, partially offset by a sharp decrease in public carrier networks revenues. Sales in 1998 when compared with 1997 were considerably higher in broadband networks and significantly higher in enterprise networks.

The recent devaluation of the Brazilian real is expected to slow economic growth in 1999 for the CALA region. Although demand for Nortel Networks' products is expected to be impacted in the short-term, Nortel Networks anticipates that the long-term growth prospects for the region remain strong.

The Asia Pacific region has been, and is expected to continue to be, affected for the foreseeable future by unstable economies caused in part by the volatility of certain currencies. Revenues from the Asia Pacific region (excluding China) were less than 3% and 4%, respectively, of the consolidated revenues for the years ended December 31, 1998, and 1997. The current economic crisis in the affected Asia Pacific countries resulted in lower than anticipated demand for Nortel Networks' products in the second half of 1998 and it is expected that demand will continue to be impacted by the crisis. In addition, the current economic crisis has spread to other countries, including countries in CALA, and this, together with global financial market uncertainty, may also impact demand generally for Nortel Networks' products.

Gross Profit

Gross margin for 1998 was 42.8% of revenues compared with 41% of revenues for 1997. The 1998 increase in gross profit over 1997 was primarily the result of increased sales volume in both the Carrier and Enterprise segments, partially offset by lower sales volume in Other, primarily due to the 1998 dispositions. Within the Carrier segment, sales volume increased in broadband networks, wireless networks and public carrier networks. Improvements due to product mix offset price reductions in both segments.

Improved gross margins in the Enterprise and Carrier segments contributed to the higher 1998 gross profit. Within the Carrier segment, gross margins increased in public carrier networks, wireless networks and broadband networks. Gross margins in 1998 were positively impacted by the Bay Networks transaction.

Although competitive pricing pressures continue, particularly in wireless networks, Nortel Networks has been able to offset such pressure through the sale of higher-margin products and manufacturing and other cost-reduction programs. Gross margin is also affected by the level of software sales. Gross margin was negatively affected by the introduction of new products, the continued expansion into new markets, and the increase in products manufactured by other suppliers in network solutions offered by Nortel Networks.

Operating Expenses

In 1998, selling, general and administrative (SG&A) expense increased by 23% to $4.63 billion for 1998 compared with 1997. As a percentage of total revenues, however, SG&A expense remained flat compared with 1997 at 17.6% of total revenues. The 1998 increase in absolute dollars reflected the funding of North American and international market investments across both operating segments, as well as increased investments supporting Nortel Networks' global marketing programs and operations systems to simplify and streamline Nortel Networks' business processes, ongoing investment in computer systems infrastructure related to the global supply chain management system, the preparation for the Year 2000 and a weaker Canadian dollar. The lower SG&A expenses in Other are the result of divestitures, primarily resulting from the WilTel Transaction. SG&A was also impacted by the provision for customer financing risk.

Nortel Networks' research and development (R&D) expense for 1998 increased by 23% to $3.66 billion compared with 1997 while R&D expense as a percentage of total revenues remained essentially flat. The increased level of investment in absolute dollars in 1998 reflects ongoing programs across the Carrier and Enterprise segments for new products, process development, advanced capabilities, and services for a broad array of applications.

Amortization of Intangibles

The amortization of purchased in-process R&D amounted to $1,865 million for 1998 compared with nil in 1997 primarily reflecting the charges related to the acquisitions of Bay Networks, Broadband Networks Inc. (BNI), Aptis Communications, Inc. (Aptis) and Cambrian Systems Corporation. The capitalized amount of purchased in-process R&D as at December 31, 1998, was $779 million. The amortization of acquired technology of $351 million compared with nil in 1997 reflects the charge related to the Bay Networks transaction. The capitalized amount of acquired technology as at December 31, 1998 was $2.79 billion. Goodwill amortization primarily reflecting investments in Bay Networks, STC plc, Matra Nortel Communication S.A.S. (MNC) and MICOM Communications Corporation was $366 million for 1998 compared with $66 million in 1997. The capitalized amount of goodwill as at December 31, 1998 was $5.04 billion.

Special Charges

Special charges aggregating $679 million were included in the results for 1998. Included in

the special charges for 1998, was a provision of $574 million related to steps taken to streamline management layers, gain operational efficiencies, and realign resources and investments. Included in the provision was $397 million representing the cost of severance and related benefits for approximately 4,100 employees worldwide, which includes $107 million for individuals in R&D activities. The majority of Nortel Networks' business functions, job classes, and geographic areas were impacted, with a majority of the reductions taking place in the United States and Canada. Also included in this provision was $142 million in non-cash expenses for capital asset and other write-downs, and $35 million in facilities and other costs, primarily related to wireless networks and enterprise networks. The anticipated benefits of these activities began to materialize in Nortel Networks' consolidated results of operations during the fourth quarter of 1998. All of these activities are expected to be substantially completed by September 30, 1999.

Investment and Other Income – Net

Investment and other income – net, including equity in net earnings of associated companies, increased by $324 million in 1998 compared with 1997. The increase was primarily the result of a pre-tax gain of $118 million relating to Entrust Technologies Inc.'s (Entrust) initial public offering concurrent with a secondary offering of Entrust common shares by Nortel Networks and a pre-tax gain of $108 million from the sale of Lagardère SCA's shares. Also contributing to the increase in 1998 compared with 1997 was an increase of $52 million in interest income, primarily resulting from higher cash balances following the Bay Networks transaction and higher levels of short-term investments due to increased cash flows from United States operations.

Nortel Networks continues to expand its business globally and, as such, an increasing proportion of its business will be denominated in currencies other than U.S. dollars. As a result, fluctuations in foreign currencies may have an impact on Nortel Networks' business and financial results. Nortel Networks endeavors to minimize the impact of such currency fluctuations through its ongoing commercial practices and by attempting to hedge its exposures to major currencies. In attempting to manage this foreign exchange risk, Nortel Networks identifies operations and transactions that may have foreign exchange exposure, based upon, among other factors, the excess or deficiency of foreign currency receipts over foreign currency expenditures in each of Nortel Networks' significant foreign currencies. Nortel Networks' significant currency flows for the year ended December 31, 1998, were in U.S. dollars, Canadian dollars, United Kingdom pounds and French francs. For the year ended December 31, 1998, the net impact of foreign exchange fluctuations was a loss of $110 million as compared with a loss of $70 million for the same period of 1997. Given the devaluation of the Brazilian real and its continued volatility and Nortel Networks' exposure to this market and other international markets, Nortel Networks continuously monitors all its foreign currency exposures. As Nortel Networks cannot predict whether foreign exchange losses in Brazil and other countries will continue to increase in the future, significant foreign exchange fluctuations may have an adverse impact on Nortel Networks' results from operations.

Interest Expense

Interest expense increased by $109 million in 1998 compared with 1997. The increase is mainly due to the increased use of short-term debt, primarily in Colombia and Brazil, increased use of commercial paper, and an increase in short-term interest rates, which was partially offset by lower interest on long-term debt.

Streamlining of Business Processes

On January 13, 1999, Nortel Networks announced the acceleration of its operations strategy designed to better meet the rapidly changing needs and values of its customers worldwide. The strategy will simplify and streamline Nortel Networks' businesses and operations processes, including Nortel Networks' order-entry and fulfillment, delivery, service, and manufacturing systems over the next three years.

The operations strategy will involve plant divestitures, manufacturing rationalization, greater reliance on outsourcing, and redeployment of employees. Approximately 10% of Nortel Networks' workforce will be affected by the program. Divestitures, retraining, and attrition will minimize employee impact. The efficiencies generated by the program are not expected to significantly impact 1999 results from continuing operations, but will position Nortel Networks for future growth. Over the coming years, the impact of the operations strategy is intended to contribute to Nortel Networks' presence in the marketplace, growth in market share, higher revenue growth, and, ultimately, higher earnings growth.

Litigation

See notes to consolidated financial statements, Note 11(d).

International Telecommunications

Overview

The International Telecommunications group is comprised of BCI and BCE's other international telecommunications interests. BCI owns, develops and operates telecommunications systems outside of Canada, primarily in Latin America and the Asia Pacific region with a focus on the wireless sector. BCI currently provides wireless services in Colombia, Brazil, Korea, Taiwan, China and India, as well as cable television and private telephony services in Brazil.

Bell Canada International

Revenues at BCI increased to $772 million for 1998, an increase of $354 million compared with the same period last year. This increase was primarily due to increased revenues related to BCI's cellular operations in Colombia. Of this increase, $124 million was due to Occidente y Caribe Celular S.A. (OCCEL), which was acquired at the end of the first quarter of

1998 and $107 million was due to Comunicación Celular S.A. (COMCEL). OCCEL operates a cellular network in the western region of Colombia. The balance of the increase was primarily due to increased revenues from operations in Brazil.

The total number of subscribers in companies in which BCI has an interest reached close to 2.9 million at December 31, 1998, an increase of 2.3 million over December 31, 1997. The majority of the increase was mainly due to BCI's investment, in September 1998, in Hansol PCS Co. Ltd. of Korea (Hansol) which had over 1.4 million subscribers at year-end. BCI's operations in Colombia had close to 700,000 subscribers at December 31, 1998, an increase of almost 270,000 from December 31, 1997. Americel S.A. (Americel) of Brazil and KG Telecommunications Co. Ltd. of Taiwan added 146,000 and 346,000 subscribers, respectively.

BCE's share of BCI's 1998 loss was $48 million compared with a loss of $56 million for the same period in 1997. The decreased loss was mainly due to a net gain of $100 million on the reduction of BCI's ownership in its Colombian subsidiaries, partially offset by losses associated with the acquisition of OCCEL ($61 million) and Hansol ($9 million), and the losses at Americel ($21 million).

Other International Telecom

Other International Telecom includes the international directory operations and the results of Jones Intercable, Inc. (Jones) and Cable & Wireless Communications plc (CWC) (as well as the results of Mercury Communications Limited and Bell Cablemedia plc prior to the merger with NYNEX CableComms under CWC on April 28, 1997). BCE's interest in CWC was disposed of on June 18, 1998. In addition, as a result of an agreement to sell its investment in Jones, announced on May 25, 1998, between Comcast Corporation (Comcast) and a wholly-owned subsidiary of BCE Inc., BCE no longer equity accounts for its investment in Jones as of May 25, 1998.

Other International Telecom contributed $519 million to net earnings in 1998 compared with $119 million in 1997. The increase was primarily due to a net one-time gain recorded in 1998 on the disposition of BCE's interest in CWC. Earnings in 1997 include one-time net gains of $184 million mainly relating to the dilution of BCE's interest in BCI as a result of its initial public offering.

Excluding net one-time special items, results in 1998 improved by $71 million compared with 1997 mainly reflecting lower losses at Jones due to the discontinuation of equity accounting referred to above and CWC's improved earnings prior to the sale.

LIQUIDITY AND CAPITAL RESOURCES

BCE Consolidated

BCE's consolidated operating cash flow (see page 41) decreased by $1,635 million to $4,020 million compared with 1997, primarily as a result of lower operating profit resulting from the change in accounting for Nortel Networks.

As discussed on page 22, due to the Bay Networks transaction, BCE's ownership in Nortel Networks has been diluted from approximately 51% to 41%. As a result of the decrease in ownership, effective September 1, 1998, on a prospective basis, BCE has changed its accounting for Nortel Networks from full consolidation to equity accounting. Accordingly, BCE's consolidated statement of changes in financial position no longer reflects the cash flows related to Nortel Networks on a line-by-line basis effective September 1, 1998.

A discussion of changes in cash flows of Canadian Telecommunications, Nortel Networks, International Telecommunications and BCE Inc. follows.

Canadian Telecommunications

Bell Canada

The principal components of Bell Canada's cash flows are shown in table 7 on the next page.

Operating cash flow was essentially flat for 1998 compared with 1997. Free cash flow of $923 million in 1998 represented an increase of $485 million over 1997 due primarily to the net proceeds of $753 million related to the sale of certain real estate properties in the first quarter of 1998 and the termination of the business transformation program, partially offset by increased working capital requirements and other items and increased net capital expenditures.

Net capital expenditures increased by $279 million for 1998 compared with 1997 due principally to the information systems and information technology modernization program. Net capital expenditures for 1999 are expected to remain relatively flat compared with 1998 as increases related to Internet technologies (broadband) are expected to be offset by reduced net capital expenditures related to voice technologies (narrowband) and by reduced expenditures related to information systems and information technology.

During 1998, Bell Canada repaid some $862 million of debt comprised of $544 million of long-term debt which matured, $127 million of long-term debt which was redeemed prior to maturity, and $191 million of notes payable and bank advances. Bell Canada's cash requirements during 1998, including the financing of capital expenditures and early redemptions, were primarily met by internally generated funds. Approximately $640 million of Bell Canada's long-term debt and other long-term liabilities will mature during 1999. Bell Canada's cash requirements during 1999, including the financing of capital expenditures and investments, are expected to be met by internally generated funds and by the issuance of debt.

On December 31, 1998, outstanding commercial paper totalled $105 million in Canadian funds. The commercial paper program is supported by lines of credit, extended by several banks, totalling $750 million.

Nortel Networks

The following discussion of Nortel Networks' cash flows is based on the full twelve months of 1998.

Cash flow from operations of $2,447 million in 1998

7. Bell Canada Cash Flows

($ millions)	1998	1997
Net earnings (loss) before preferred dividends	832	(1,837)
Extraordinary item	–	2,725
Restructuring and other charges	471	–
Depreciation, amortization and other non-cash operating items	1,727	2,186
Operating cash flow	3,030	3,074
Changes in working capital and other items	(42)	303
Business transformation program and other workforce reduction costs (net of deferred income taxes thereon)	–	(427)
Cash flow from operations	2,988	2,950
Capital expenditures, net	(1,947)	(1,668)
Proceeds from disposition of assets, net of investments	689	(91)
Dividends	(855)	(858)
Other investing activities	48	105
Free cash flow	923	438
Financing provided (reduced) by:		
Decrease in notes payable and bank advances	(191)	(18)
Repayment of long-term debt	(671)	(586)
Issuance of long-term debt	–	295
Increase in cash on hand	(101)	(169)
Other financing activities	40	40
	(923)	(438)

represented an increase of $1,274 million from 1997. Nortel Networks continues to focus on working capital as a key component of cash management.

Capital expenditures of $955 million in 1998 represented an increase of $153 million from 1997. Nortel Networks expects its consolidated capital expenditures for 1999 to be substantially above 1998 levels.

Proceeds from the sales of businesses were $1,136 million in 1998, an increase of $594 million from 1997. The increase was primarily due to the sale of Nortel Networks' Advanced Power Systems business to Astec (BSR) plc, the proceeds from the Entrust initial public and secondary offerings and the sale of Nortel Networks' holdings in ICL plc.

On April 17, 1998, Nortel Networks amended its five-year and 364-day syndicated credit agreements which permit borrowings in an aggregate amount not to exceed US $1.5 billion, of which US $1.0 billion relates to the five-year agreements and US $500 million relates to the 364-day agreements, to, among other things, extend the agreements for an additional one year and 364 days, respectively. The entire amount of these committed facilities remains available. Nortel Networks expects to meet its cash requirements from operations and conventional sources of external financing.

The competitive environment requires Nortel Networks and many of its principal competitors to provide significant amounts of medium-term and long-term customer financing in connection with the sale of products and services. While Nortel Networks has generally been able to place its customer financings with third-party lenders, Nortel Networks anticipates that, due to the amount of financing it expects to provide and the higher risks typically associated with such financings (particularly when provided to start-up operations or to customers in developing countries), the amount of such financings required to be supported directly by Nortel Networks for at least the initial portion of their term is expected to increase significantly in the future. As at December 31, 1998, Nortel Networks had entered into certain financing agreements for the future provision of up to approximately US $754 million of customer financing and had outstanding offers or commitments in connection with awarded supply contracts, subject to fulfillment of certain conditions, to provide up to approximately US $1.46 billion of additional customer financings (not all of these offers or commitments are expected to be drawn upon). Nortel Networks expects to continue to arrange for third-party lenders to assume customer financing obligations agreed to by Nortel Networks and to fund other customer financings directly supported by Nortel Networks from working capital and conventional sources of external financing in the normal course. In light of recent economic uncertainty and reduced demand for financings in capital and bank markets, Nortel Networks may be required to continue to hold certain customer financing obligations for longer periods prior to placement with third-party lenders.

As a result of the maturity of Nortel Networks' internal customer financing processes and Nortel Networks' increased experience in the area of medium-term and long-term customer financing, effective April 1, 1997, Nortel Networks began to maintain an allowance to absorb credit-related losses in its portfolio of on-balance sheet and off-balance sheet financing assets and liabilities (Financing Portfolio). The Financing Portfolio is primarily medium-term and long-term customer-financed receivables and guarantees. The allowance is part of the provision for uncollectibles. The allowance is reviewed quarterly for adequacy of impairment coverage and, in management's opinion, the allowance is considered adequate to absorb credit-related losses in the Financing Portfolio. Prior to January 1, 1997, Nortel Networks reflected customer financing risk related to PCS contracts as a reduction in revenues. All customer financing risk is now reflected through SG&A.

Nortel Networks has entered into supply contracts with customers for products and services, which in some cases involve new technologies currently being developed or which have not yet been commercially deployed by Nortel Networks or require Nortel Networks to build and operate networks on a turnkey basis. These supply contracts may contain delivery and installation timetables and performance criteria which, if not met, could result in the payment of substantial penalties or liquidated damages by Nortel Networks, the termination of the related supply contract, and/or reduction of shared revenues under a turnkey arrangement.

International Telecommunications

Bell Canada International

BCI had cash and cash equivalents of $98 million at December 31, 1998. During 1998, net investing activities amounted to $913 million, mainly relating to BCI's acquisition of a 68.4% interest in OCCEL for $445 million, its acquisition of an 18.2% equity interest in Hansol for $179 million and $297 million in capital expenditures primarily at COMCEL, OCCEL, Hansol and Americel.

On December 10, 1998, subsidiaries of American International Group Inc. paid $116 million for an indirect 3.45% (fully diluted) equity interest in COMCEL and OCCEL. On December 23, 1998, BCI transferred its interest in OCCEL to COMCEL. The aggregate sale price was $551 million, consisting of $244 million in cash and $307 million in warrants to purchase shares of COMCEL. In addition, on December 23, 1998, COMCEL also arranged a new US $300 million credit facility expiring in 2002 and exchanged its outstanding bonds with final maturity in 2003 for new bonds maturing in 2005.

On December 14, 1998, Americel was the first B-band cellular operator to be granted a long-term loan of R $190 million ($240 million) from the Brazilian National Economic Development Bank. These funds will allow Americel to decrease its interest cost without being exposed to foreign exchange risk.

In December 1998, BCI entered into credit agreements for up to $500 million of senior unsecured indebtedness. The credit agreements expire in December 1999. In addition, in February 1999, BCI issued $400 million of Debentures ($150 million to Nortel Networks) due 2002. Funds available under the credit agreements and the proceeds from the Debentures have been or will be primarily used to fund BCI's existing operations and development projects, to provide working capital and for general corporate purposes, including the expenses incurred in seeking and evaluating new business opportunities.

Between existing operations and development projects, BCI expects to have approximately $500 million of capital expenditures, investments and acquisitions in 1999. BCI's 1999 financing requirements are expected to be met through available cash balances, proceeds from the issuance of the Debentures, funds available under the credit agreements and new debt or equity.

In early 1999, two new BCI operations will be launched: Axtel S.A. de C.V. (formerly known as Telefonia Inalambrica del Norte S.A. de C.V.), which will provide fixed wireless local service in Mexico and Telet S.A., BCI's second Brazilian cellular operation.

In January 1999, BCI's consortium won the regional operating license to provide fixed telephone and value added services in the Northeast region of Brazil, which is home to almost 90 million people. The consortium, of which BCI owns 34.4%, plans to invest more than $1.5 billion in building its state-of-the-art network. BCI and its partners have agreed to jointly contribute US $300 million in equity capital over a three-year period, of which up to US $103 million would be provided by BCI.

In January 1999, KG Telecom, a PCS operator in the northern region of Taiwan, acquired an 82% interest in Tuntex Telecommunications Co. Ltd., a PCS operator in the central and southern regions of Taiwan for approximately $410 million. BCI has an option to increase its equity interest in KG Telecom from its existing 10% interest to 20%.

Other International Telecom

On May 25, 1998, a wholly-owned subsidiary of BCE Inc. announced it had agreed to sell to Comcast 6.4 million Class A common shares of Jones Intercable and a 49% interest in another subsidiary of BCE Inc. which owns another 6.4 million Class A common shares of Jones Intercable. The 12.8 million class A common shares represent an approximate 30% equity interest and 15% voting interest in Jones Intercable. Comcast also has agreed to purchase a 49% interest in another subsidiary of BCE Inc. which owns a control option to acquire the approximate 2.9 million shares of common stock of Jones Intercable currently owned by Mr. Glenn R. Jones. As part of the transaction, Comcast would purchase the remaining 51% of the above-mentioned subsidiaries when the control option is exercised. On August 12, 1998, Comcast, BCE Inc.'s wholly-owned subsidiary and Mr. Glenn R. Jones agreed to structure the transaction in such a way that would allow for the acceleration of the exercise of the control option which is expected to occur in 1999.

BCE Inc.

Dividend income, net of corporate expenses and debt financing charges, amounted to $877 million for 1998 compared with $861 million for the same period last year. Dividends to shareholders totaled $961 million for 1998 compared with $939 million for 1997.

On February 18, 1998, BCE Inc. issued $150 million of Notes under its shelf prospectus filed in November 1997. In addition, BCE Inc. refinanced £125 million Series 9 Notes on January 30, 1998, and $300 million Series 10 Notes on May 1, 1998, with commercial paper.

The sale of CWC in June 1998 generated net proceeds of $2,289 million which were mainly used by BCE Inc. to repay commercial paper and for investments.

Investments during 1998 totaled $1,624 million including:

- the acquisition of 4,832,200 shares of BCE Mobile for $170 million in March 1998, concurrent with BCE Mobile's sale of 2,567,800 shares at $35.25 per share on a bought deal basis, which maintained BCE's ownership interest of 65.3%;
- the acquisition of 1,500,000 shares of Nortel Networks for $107 million in the first quarter of 1998;
- the acquisition of common shares of Telesat Canada for $158 million in May 1998, which increased BCE's ownership interest from 58.7% to 100%;
- the acquisition of 11,971,700 common shares of Excel for $424 million and the acquisition of 7,701,500 shares of Teleglobe for $312 million, which brought BCE's ownership of Teleglobe to approximately 20%;
- a total investment of $124 million in Bell Satellite Services, including $16 million to acquire the 10% interest not previously owned by BCE; and,
- the acquisition of 12,000,000 (post split) outstanding Class A Subordinate Shares of CGI in January 1998 for $138 million, and the acquisition of 1,500,000 Class B Multiple Voting Shares resulting from the exercise, in part, of a put option by the three largest shareholders of CGI for a total of $54 million.

In December 1997, BCE Inc. initiated a normal course issuer bid, which expired on December 1, 1998, to repurchase up to 10,000,000 common shares. In 1998, 656,400 common shares were purchased and cancelled for $32 million. The repurchase of shares lessened the effect of dilution that occurred as 4,837,613 common shares were issued for $250 million in 1998 through BCE Inc.'s shareholder dividend reinvestment and stock purchase plan, employee savings plan and stock option plan and as a result of the acquisition of 1,500,000 CGI Class B Multiple Voting Shares.

At December 31, 1998, BCE Inc. had committed credit facilities totaling $1.275 billion available as back-up for its commercial paper program and general corporate purposes. The entire amount of these facilities remains available for use by BCE Inc.

RISK FACTORS

In addition to the other risk factors outlined in this document, the following additional factors should be considered. Collectively these factors could cause the results contemplated by the forward-looking statements contained in this document to materially differ from current expectations. The factors discussed below relate to BCE Inc.'s two principal operating units, namely Bell Canada and Nortel Networks. For a discussion of risk factors which could materially affect the results of operations and financial condition of certain other principal companies of the BCE group as well as for a more detailed discussion of the risk factors which could materially affect the results of operations and financial condition of Bell Canada and Nortel Networks, the reader is referred to BCE Inc.'s Annual Information Form for the year ended December 31, 1998. BCE Inc. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

For a description of Bell Canada's and Nortel Networks' Year 2000 programs and risks associated with the Year 2000 issue which could have a material adverse effect on the financial condition and results of Bell Canada and Nortel Networks, see "Impact of Year 2000 issue (Year 2000 Readiness Disclosure)" on pages 35 to 38.

Bell Canada's and Nortel Networks' future operating results may be affected by various trends and factors which must be managed in order to achieve favourable operating results. In addition, there are trends and factors beyond Bell Canada's and Nortel Networks' control which affect their operations. Such trends and factors include adverse changes in the conditions in the specific markets for Bell Canada's and Nortel Networks' services and products, the conditions in the broader market for communications and the conditions in the domestic or global economy generally.

Bell Canada and Nortel Networks participate in a highly volatile and rapidly growing telecommunications industry which is characterized by vigorous competition for market share and rapid technological development. These factors could result in aggressive pricing practices and growing competition both from start-up and well capitalized companies.

Bell Canada

Increasing Competition

With the advent of competition in the local service market in 1998, all parts of Bell Canada's business are facing substantial and intensifying competition. Factors such as product pricing and service are under continued pressure while the necessity to reduce costs is ongoing. Bell Canada must not only try to anticipate, but must also respond promptly to, continuous and rapid developments in its businesses and their markets. In addition, the significant growth and size, as well as increasing global scope, of the telecommunications industry are attracting new entrants and encouraging parties other than existing participants to expand their services and their markets. Mergers and acquisitions, as well as alliances and joint ventures, are creating new or larger participants with broad skills and significant resources which will further impact the competitive landscape. Current and future competitors are coming not just from within Canada, but also globally, and will include not only major telecommunications companies, such as AT&T Canada and Sprint Canada, but also cable companies, Internet companies, wireless service providers and other companies that offer network services, such as providers of business information systems and system integrators, as well as an increasing number of other companies who deal with or have access to customers through various communications networks. Many of these companies are significant in size and resources and have a significant market presence with brand recognition and existing customer relationships.

Technology

The telecommunications industry, as with many others, is characterized by rapidly changing technology with the related changes in customer demands and the need for new products and services at competitive prices. Technological developments are also shortening product life cycles and facilitating convergence of different segments of the increasingly global information industry. Bell Canada's future success will be impacted by its ability to anticipate, invest in and implement new technologies with the levels of service and prices that consumers demand. Technological advances may also affect Bell Canada's level of earnings by shortening the useful life of some of its assets. Further, technological advances may well emerge that could reduce or replace the costs of plant and equipment and eliminate or reduce barriers that deter other companies from competing in particular market segments.

Decisions of the Canadian Radio-television and Telecommunications Commission (CRTC)

During 1997, the CRTC released several important decisions which set out the rules for the evolution to total competition in Canada's telecommunications industry. Included in these decisions were those related to the introduction of local service competition, the implementation of price cap regulation, and forbearance from long distance and private line service regulation. These decisions, which are described in BCE Inc.'s Annual Information Form for the year ended December 31, 1998, represent significant challenges and opportunities for Bell Canada and are expected, together with continued intense competition across all lines of business coupled with the rapid pace of technological change (as previously discussed), to have a significant impact on Bell Canada's results in the future.

Nortel Networks

Rapid Technological Change and Voice and Data Convergence

It is expected that data communications traffic will grow substantially in the future compared to the modest growth expected for voice traffic. The growth of data traffic is expected to have a significant impact on traditional voice networks and create market discontinuities which will drive the convergence of data and telephony and give rise to the demand for Internet Protocol ("IP")-optimized networks. Given the dynamic and evolving nature of the telecommunications business and the technology involved, there can be no assurance as to the rate of such convergence. Consequently, there is no assurance that the market discontinuities and the resulting demand for IP-optimized network equipment will continue to develop. In order to position Nortel Networks to take advantage of the anticipated growth in demand for IP-optimized network equipment, Nortel Networks has made a number of strategic acquisitions, including the acquisition of Bay Networks. Acquisitions, particularly an acquisition the size of the Bay Networks acquisition, involve significant risks and uncertainties. These risks and uncertainties include the risk that the industry does not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in the industry, the difficulty in integrating new businesses and the risks of entering new markets in which Nortel Networks has limited experience. The markets for Nortel Networks' products are characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and short product life cycles. Nortel Networks' success is expected to depend, in substantial part, on the timely and successful introduction of new products and upgrades of current products to comply with emerging industry standards and to address competing technological and product developments carried out by others.

Competition

Nortel Networks' principal competitors are large telecommunications equipment suppliers, such as Lucent Technologies Inc. (Lucent), Siemens AG, and L.M. Ericsson, and data networking companies such as Cisco Systems, Inc. and 3Com Corporation. Since the markets in which Nortel Networks competes are characterized by rapid growth and, in certain cases, low barriers to entry and rapid technological changes, smaller niche market companies and start-up ventures may become competitors in the future. The acquisition of Bay Networks was followed by Lucent's agreement to acquire Ascend Communications Inc. These acquisitions may have the effect of inducing certain of Nortel Networks' other competitors to enter into additional business combinations, to accelerate product development, or to engage in aggressive price reductions or other competitive practices thereby creating even more powerful or aggressive competitors.

International Growth, Foreign Exchange and Interest Rates

Nortel Networks intends to continue to pursue growth opportunities in international markets. In many international markets, long-standing relationships between Nortel Networks' potential customers and their local providers, and protective regulations, including local content requirements and type approvals, create barriers to entry. In addition, pursuit of such international growth opportunities may require significant investments for an extended period before returns on such investments, if any, are realized. Such projects and investments could be adversely affected by reversals or delays in the opening of foreign markets to new competitors, exchange controls, currency fluctuations, investment policies, repatriation of cash, nationalization, social and political risks, taxation, and other factors, depending on the country in which such opportunity arises. Difficulties in foreign financial markets and economies, and of foreign financial institutions, could adversely affect demand from customers in the affected countries.

IMPACT OF YEAR 2000 ISSUE (YEAR 2000 READINESS DISCLOSURE)

The Year 2000 issue relates to the way dates have traditionally been stored and used in computing systems. To conserve expensive memory space, years were stored as two digits, so that the year 2000 will appear in many computing systems as "00". Many systems and computers will interpret "00" as the year 1900 instead of the year 2000. This could create difficulties in performing certain computing functions or potentially cause system failures. This in turn could result in miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in other normal business activities. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000.

BCE Inc.'s subsidiary and associated companies (the "BCE Group companies") have established Year 2000 programs with the objective of seeking to ensure that all aspects of their operations are being addressed to meet the Year 2000 issue. The following discussion reviews the impact of the Year 2000 issue on BCE's two principal business segments, namely, Canadian Telecommunications and Nortel Networks.

Canadian Telecommunications

The practical consequences of the Year 2000 issue are a significant risk and challenge to BCE's Canadian telecommunications companies such as Bell Canada because the nature of their business is highly dependent on complex systems and technology which have date-sensitive aspects and a significant portion of their software must be modified or replaced. The Year 2000 issue could impact across most of their operations including the network (both the BCE Group companies' network and that shared with their business partners), the products and services provided to customers and their own internal systems and support activities. For example, network switching equipment is highly dependent on date-sensitive software programs that assist with the routing, reporting and management of telephone calls. A wide range of network management systems is also highly dependent on date-related functions. Bell Canada has several hundred information systems (e.g., call centre management systems, ordering and provisioning systems, repair reporting and management systems, and billing systems) which depend on date functionality to properly transact business affairs. Many products and services, as well as their supporting elements (e.g., voice mail), are also dependent on date-related functionality.

Bell Canada

A Year 2000 Program Management Office (PMO) was established in 1997 with the mandate to minimize the impact of the Year 2000 issue on Bell Canada's operations. The Year 2000 PMO has the responsibility to ensure that all aspects of Bell Canada's operations are being addressed to meet the Year 2000 issue. Bell Canada and the other Stentor Operating Companies have also set up a National Year 2000 Program Management Office (PMO). The Stentor Year 2000 PMO has developed a Year 2000 action plan to address the continued functionality of nationally delivered services up to, through, and beyond the year 2000.

A comprehensive governance process has been established to oversee Bell Canada's Year 2000 program. The Year 2000 program is reviewed monthly with the President of Bell Canada and other senior officers of the company. Updates are provided at least on a quarterly basis to the Bell Canada Board of Directors. In addition and in collaboration with the Stentor Year 2000 PMO, the Stentor National Year 2000 program is reviewed monthly with the Board of Directors of Stentor Canadian Network Management ("SCNM").

At the outset of Bell Canada's Year 2000 program, Bell Canada identified the following requirements in order to get ready for Year 2000: of approximately 125 million lines of software code in Bell Canada's support systems, it was determined that 83 million lines of code required detailed review and conversion; in addition, Bell Canada's business critical and customer affecting systems, applications and network elements (consisting of hardware, software and other components in over 300 central offices) required conversion or upgrading in order to make them Year 2000 ready. Progress towards Year 2000 readiness has been made as disclosed below.

As of December 31, 1998, Bell Canada had completed the majority of the effort required to convert or upgrade, test and deploy (i.e., put back into service) the network elements required to be Year 2000 compliant. In fact, all of the network elements comprising the Public Switched Telephone Network (PSTN) have been converted or upgraded, tested and put back into service as of December 31, 1998. However, as part of Bell Canada's ongoing Year 2000 test program, further testing of the PSTN will occur in 1999. Bell Canada anticipates that it will substantially complete the deployment of its network elements by approximately the end of March 1999. Similarly, as of December 31, 1998, the renovation, upgrade and code conversion of the majority of Bell Canada's information systems and information technology (IS/IT) was complete, with the mission critical components of these systems being in excess of 95% completed as of December 31, 1998. Each application is subject to an internal certification process and tested before it is put back into service. It is anticipated that all Bell Canada mission critical applications will be substantially complete by the end of March 1999 and that the national mission critical applications that Bell Canada uses in collaboration with its business partners will be substantially complete by the end of June 1999. Bell Canada further expects that the majority of its products and services will be Year 2000 ready by March 31, 1999, with substantially all products and services being targeted to be ready by approximately

June 30, 1999. As to national products and services which Bell Canada offers in collaboration with its business partners, it is anticipated that the majority of those products will be ready by March 31, 1999, with substantially all products and services being targeted to be ready by approximately June 30, 1999.

Bell Canada has undertaken a detailed testing and internal certification program which seeks to ensure that each Bell Canada Year 2000 IS/IT project is reviewed and approved by the appropriate officers or other employees of Bell Canada. Each IS/IT application and network element is subject to a series of date related tests that seek to ensure that it will continue to work before and beyond the Year 2000. In addition, Bell Canada, in cooperation with the other Stentor Operating Companies, has begun to conduct national interoperability tests and will continue to do so in 1999. Bell Canada is also taking steps which seek to ensure that its mission critical and priority building systems, as well as the IS/IT systems that support the physical environment, are being prepared for the Year 2000.

Bell Canada performs reviews of its Year 2000 program on a regular basis. In addition, three specific reviews have been conducted by an independent third party, and further independent reviews of key aspects of Bell Canada's Year 2000 program may be conducted in the future. Although there are significant risks and uncertainties associated with a program of this magnitude, Bell Canada believes it will meet its overall schedule. However, a delay in any critical element of Bell Canada's Year 2000 program could materially impact Bell Canada's ability to meet its projected target dates and its ability to be ready by January 1, 2000. Some of these critical elements include the delivery of compliant products and services from Bell Canada's suppliers, delays in the conversion and deployment of critical network elements, and cross-impacts of Bell Canada's modernization program delays. Contingency plans would be invoked should any delay or failure be deemed to significantly jeopardize Bell Canada's operations. Bell Canada anticipates it will have substantially completed its development of contingency plans by the end of March 1999. The plans will be implemented and tested throughout the remainder of the year.

The risk and challenge of Bell Canada's Year 2000 program is amplified by the fact that many of Bell Canada's applications and systems interact with those of customers and other third parties which are beyond the control of Bell Canada but whose failure to make their systems Year 2000 compliant could materially impact Bell Canada. Bell Canada is highly dependent on many suppliers who provide Bell Canada with an extensive array of products and services critical to its operations.

Since January 1997, Bell Canada has instituted a comprehensive vendor management program, which seeks to ensure that the products and services it receives from its suppliers are or will be Year 2000 compliant. As of December 31, 1998, Bell Canada had completed its due diligence process with most of its suppliers and intends to continue its monitoring of its suppliers to seek to ensure that products and services will be Year 2000 compliant and that Year 2000 ready products will be delivered when promised. However, there can be no assurance that the products or systems of other companies which Bell Canada or its customers utilize or rely upon will be converted in a timely and effective manner, or that a failure to convert by another company or a conversion that is incompatible with Bell Canada's systems, would not have material adverse effects on Bell Canada or its customers.

Bell Canada also believes that the restructuring of the Stentor alliance will not materially affect its Year 2000 program. The Stentor alliance is evolving, but it is envisaged that SCNM will continue to be responsible for the Stentor National Year 2000 program.

Nortel Networks

The practical consequences of the Year 2000 issue are a significant risk and challenge to Nortel Networks. More specifically, the Year 2000 issue could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. Nortel Networks' business operations, including, for example, its finance, human resources, manufacturing, and customer order management functions, make extensive use of information technology and, as such, are exposed to significant risk from the Year 2000 issue.

In 1994, Nortel Networks began a long-term program to deploy an enterprise backbone architecture to establish a common suite of business applications throughout Nortel Networks and its subsidiaries. The new applications are being deployed as Year 2000 ready, and for those business units relying on replacement of certain legacy applications as part of their Year 2000 strategy, they are expected to replace a number of legacy applications by the end of the second quarter of 1999. All business system applications not addressed by the enterprise backbone deployment, including vendor supplied applications, are expected to be made Year 2000 ready through Nortel Networks' Year 2000 Program.

In 1996, Nortel Networks initiated its Year 2000 Program and subsequently determined that it would be necessary to modify or replace significant portions of software so that business applications, computing environments and products would properly utilize Year 2000 dates before and beyond December 31, 1999. Nortel Networks' Year 2000 Program consists of a product program (the Product Program), an information services program (the IS Program) and a facilities program (the Facilities Program).

In September 1998, following the acquisition of Bay Networks, Nortel Networks commenced integration of Bay Networks' Year 2000 Program into Nortel Networks' overall Year 2000 Program.

The Product Program focuses on identifying and resolving Year 2000 issues relating to Nortel Networks' products and deploying solutions to customers. Through this program Nortel Networks has made or will make its current product offerings Year 2000 ready. In addition, Nortel Networks is

providing an upgrade or migration path and other information to customers and distributors who have non-Year 2000 ready products. The Product Program consists of the following three major phases: Phase I (analysis, remediation and verification), Phase II (deployment) and Phase III (business continuity planning).

Nortel Networks estimates that Phase I of the Product Program was approximately 98% complete as at December 31, 1998 and the remaining activities are expected to be completed by the end of March 1999. Nortel Networks is also working with outside agencies, such as Bellcore, the United States government (GSA), the Telco Year 2000 Forum in the United States, Alliance for Telecommunications Industry Standards, and the Canadian Year 2000 Telecom Industry Forum, to support independent verification and interoperability testing of selected products. Phase II, deployment of product and product upgrades, has commenced and is expected to continue throughout 1999 at the request of Nortel Networks product users. Nortel Networks estimates that this phase will be substantially complete by mid-1999. Nortel Networks has initiated formal communications with its customers (except where Nortel Networks sells its products through distributors, in which case formal communications have been initiated primarily with such distributors). Customers and/or distributors are being notified of known risk areas and proposed remediation plans. Customers are being encouraged to arrange for deployment of Year 2000 ready products promptly to ensure the products will be deployed prior to the year 2000. Increased orders of Year 2000 ready products and product upgrades at the end of 1999 may overburden available installation resources. Phase III, business continuity planning, began for the Product Program in the third quarter of 1998 and is expected to be completed by the end of the second quarter of 1999. Thereafter, business continuity planning will be monitored and updated on an ongoing basis into the year 2000. Joint implementation of business continuity planning will be undertaken with customers as appropriate.

The IS Program addresses business applications and includes third-party/supplier assessment and joint venture activities related to Year 2000 readiness. The IS Program consists of the following three major phases: Phase I (assessment and validation – inventory of Year 2000 affected items, assessment of Year 2000 readiness, and prioritization of items determined to be material to Nortel Networks); Phase II (implementation and deployment – repair and/or replacement of items determined not to be Year 2000 ready, testing of all items that have been repaired or replaced or have been identified as Year 2000 ready but are considered to be material to Nortel Networks, and redeployment of tested items into Year 2000 ready operating environments); and Phase III (business continuity planning – planning to reduce the risk of business interruption to Nortel Networks resulting from potential Year 2000 issues).

Business applications are undergoing an assessment and are being remedied, retired, or replaced, as appropriate. Third-party supplied software is similarly being assessed, and has been or will be upgraded or replaced. Nortel Networks estimates that in respect of its business applications, Phases I and II activities were approximately 85% complete at December 31, 1998, and the remaining Phases I and II activities are on schedule to be completed by the end of the second quarter of 1999. Most of the Phases I and II activities carried over into 1999 are related to the deployment of applications which have been determined to be Year 2000 ready, and were not deployed in 1998 for various business reasons. These activities are scheduled to be completed by the end of the second quarter of 1999. Phase III, business continuity planning, began for the IS Program in the fourth quarter of 1998 and plans are expected to be in place by the end of the third quarter of 1999, at which point monitoring and execution of business continuity plans will be undertaken, as appropriate.

None of Nortel Networks' information technology (IT) projects have been delayed due to the implementation of the Year 2000 Program.

Third-party supplier relationships are being assessed to determine the potential for Year 2000 impact. These relationships include third-party suppliers that provide manufacturing materials, software applications, tools, outsourced services, telecommunications, and other infrastructure-related products and services required by Nortel Networks. Assessment activities include the identification and prioritization of critical suppliers, direct communications with suppliers regarding their plans and progress in addressing the Year 2000 issue relating to products and services supplied to Nortel Networks and/or their own internal operations, and specific assessment of direct interfaces between the third-party supplier and Nortel Networks. Formal communications between Nortel Networks and significant third-party suppliers are focused to determine the extent to which Nortel Networks is vulnerable to these third parties' potential failure to remedy their own Year 2000 issue. Where appropriate, Nortel Networks has or plans to execute Year 2000 compliance agreements with such parties. Detailed evaluations of the most critical third parties and their products or services have been initiated. Where appropriate, the results of such evaluations will initiate the development of business continuity plans. Business continuity planning commenced in the fourth quarter of 1998 and plans are expected to be in place by the end of the third quarter of 1999, at which point monitoring and execution of business continuity plans will be undertaken, as appropriate.

The Facilities Program encompasses the building infrastructure including environmental controls, security systems, fire systems and associated embedded systems that are used in the control or operation of all facilities operated by Nortel Networks. Also addressed under the Facilities Program are factory-based embedded systems used in the manufacture and testing of Nortel Networks products. The Facilities Program is on schedule, and it is expected that the repair and testing of equipment will be substantially completed by the end of the second quarter of 1999. Business

continuity planning for the Facilities Program commenced in the third quarter of 1998 and plans are expected to be in place by the end of the third quarter of 1999, at which point monitoring and execution of such plans will be undertaken, as appropriate.

Business continuity planning, which commenced in the Product Program, IS Program and Facilities Program during the third and fourth quarters of 1998, has recently been coordinated under a central corporate Business Continuity Planning Program (the BCP Program). The governing objective of the BCP Program is to protect corporate resources in the face of a potential Year 2000 event, to continue the delivery of essential services to both internal and external customers, and to minimize the effects of the disruption on the operations of Nortel Networks' business. The planning process is based on an industry-accepted, process-focused approach, and the overall BCP Program has a scheduled completion date of the end of the third quarter 1999, with implementation monitoring and execution of business continuity plans occurring during the fourth quarter. Interim planning milestones have been established and the progress of the BCP Program is monitored on a regular basis. Some business continuity planning activities will be completed prior to the end of the third quarter in order to prepare for potential Year 2000-related events that could occur prior to such time.

In planning for the most reasonably likely worst-case scenarios, Nortel Networks has addressed all three programs which comprise its Year 2000 Program. Nortel Networks expects that its products will be ready for the Year 2000, and that its exposure lies with customers who are not aware or not willing to complete the required upgrades to make their Nortel Networks products Year 2000 ready. Nortel Networks' Product Program includes plans to place advertisements in trade journals, conduct seminars and dedicate a web-site to contact all possible customers that may possess non-Year 2000 ready products. Nortel Networks expects that its IT systems will be ready for the Year 2000, but that it may experience isolated incidences of non-compliance and potential outages with respect to IT infrastructure. Nortel Networks plans to allocate internal resources and retain dedicated consultants and vendor representatives to be ready to take action should these events occur. Business continuity planning for facilities is currently in process, and Nortel Networks is simultaneously putting the required resources in place to carry out those plans for key facilities. Critical business partners are being contacted to assess their readiness and appropriate business continuity plans will be developed by the end of the second quarter of 1999 to address potential business interruptions that may be experienced by such parties. It is a reasonably likely worst-case scenario that some of Nortel Networks' suppliers will experience business interruptions due to the Year 2000 issue. Business continuity planning to address key supplier relationships is currently underway. Although Nortel Networks values its established relationships with key suppliers, alternative products and/or services will be considered in situations where timely confirmation of Year 2000 readiness of products/services or suppliers cannot be established. If certain suppliers are unable to deliver products and/or services on a timely basis, due to their own Year 2000 issues, business continuity plans should assure a timely transition to an alternate supplier to provide the required products and/or services. Nortel Networks also recognizes the risks to its business if other key suppliers in utilities, communications, transportation, banking, and government are not ready for the Year 2000, and is developing business continuity plans to minimize the potential adverse impacts of these risks.

Costs associated with the Year 2000 issue

The BCE Group companies have used and will continue to use both internal and external resources to reprogram, or replace, and test their software for Year 2000 modifications. BCE's share of the BCE Group companies' total costs for the various Year 2000 projects are estimated at approximately $550 million. These costs include amounts related to network elements and new systems platforms which will be expensed or capitalized in accordance with BCE's practices. Costs related to the analysis, conversion and redeployment of compliant programming code will be expensed as incurred. These costs are being funded through operating cash flows and are not expected to be material to BCE's financial position. As these cost projections are based on management's best estimates, actual results could differ materially. Specific factors that might cause such material differences include, but are not limited to, the continued availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, the timely completion of third party Year 2000 programs and other factors.

As of December 31, 1998, the BCE Group companies incurred $400 million of these costs in connection with their various Year 2000 programs, of which approximately $200 million was expensed and the balance capitalized.

Outlook

While BCE Inc. believes that the BCE Group companies have appropriate plans in place, the Year 2000 issue is a unique event which raises unprecedented challenges and risks. BCE Inc. presently believes that with modifications to existing software and conversions to new software, the Year 2000 issue can be mitigated. However, if such modifications and conversions are not completed on a timely basis, if any of the BCE Group companies' mission critical suppliers fails to deliver Year 2000 ready products and services, if products or systems of other companies which the BCE Group companies or their customers utilize or rely on are not converted in a timely and effective manner, or if there is a failure to convert by another company or a conversion that is incompatible with the BCE Group companies' systems, products and services, and if the BCE Group companies' contingency plans are ineffective, the Year 2000 issue could have a material adverse effect on the financial condition and results of the BCE Group companies.

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31	Notes	1998	1997
		($ millions, except per share amounts)	
Revenues	(3)	**27,454**	34,517
Operating expenses		**21,734**	26,989
Research and development expense		**2,232**	2,911
Purchased in-process research and development expense		**688**	–
Restructuring and other charges	(5)	**654**	132
Operating profit		**2,146**	4,485
Gain on reduction of ownership in subsidiary and associated companies	(6)	**4,146**	257
Other income	(7)	**994**	108
Operating earnings		**7,286**	4,850
Interest expense – long-term debt		**1,022**	1,111
– other debt		**259**	121
Total interest expense		**1,281**	1,232
Earnings before income taxes, non-controlling interest and extraordinary item		**6,005**	3,618
Income taxes	(8)	**(1,548)**	(1,522)
Non-controlling interest		**141**	(682)
Net earnings before extraordinary item		**4,598**	1,414
Extraordinary item	(2)	**–**	(2,950)
Net earnings (loss)		**4,598**	(1,536)
Dividends on preferred shares		**(93)**	(74)
Net earnings (loss) applicable to common shares		**4,505**	(1,610)
Earnings (loss) per common share			
Net earnings before extraordinary item		**7.07**	2.11
Extraordinary item		**–**	(4.64)
Net earnings (loss)		**7.07**	(2.53)
Dividends per common share		**1.36**	1.36
Average number of common shares outstanding (millions)		**637.6**	636.0

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the years ended December 31	Notes	1998	1997
		($ millions)	
Balance at beginning of year		**596**	3,173
Net earnings (loss)		**4,598**	(1,536)
		5,194	1,637
Deduct:			
Dividends			
Preferred shares		**93**	74
Common shares		**868**	865
		961	939
Purchase of common shares for cancellation	(17)	**24**	93
Costs related to issuance and redemption of share capital of BCE Inc. and of subsidiaries		**2**	9
		987	1,041
Balance at end of year		**4,207**	596

CONSOLIDATED BALANCE SHEET

At December 31	Notes	1998	($ millions) 1997
ASSETS			
Current assets			
Cash and short-term investments, at cost (approximates market value)		**370**	2,249
Accounts receivable	(9)	**1,922**	8,625
Inventories	(9)	**176**	2,726
Other current assets		**312**	985
Total current assets		**2,780**	14,585
Investments in associated and other companies	(11)	**9,536**	2,929
Capital assets, net	(12)	**16,745**	18,555
Long-term notes and other receivables		**72**	553
Deferred charges	(9)	**2,159**	2,088
Goodwill		**780**	1,588
Total assets		**32,072**	40,298
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**3,255**	8,955
Income and other taxes payable		**472**	372
Debt due within one year	(9)	**2,075**	2,402
Total current liabilities		**5,802**	11,729
Long-term debt	(13)	**9,260**	11,155
Deferred income taxes		**639**	454
Other long-term liabilities		**1,368**	1,540
Total liabilities		**17,069**	24,878
Non-controlling interest	(15)	**1,358**	5,611
Preferred shares	(16)	**1,700**	1,700
COMMON SHAREHOLDERS' EQUITY			
Common shares	(17)	**6,559**	6,316
Contributed surplus		**997**	998
Retained earnings		**4,207**	596
Currency translation adjustment		**182**	199
Total common shareholders' equity		**11,945**	8,109
Commitments and contingent liabilities	(19)		
Total liabilities and shareholders' equity		**32,072**	40,298

On behalf of the Board of Directors:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31	Notes	1998	($ millions) 1997
Cash provided by (used for) operations			
Net earnings (loss)		4,598	(1,536)
Items not affecting cash			
Extraordinary item	(2)	–	2,950
Depreciation and amortization		3,501	3,897
Purchased in-process research and development expense		688	–
Restructuring and other charges	(5)	518	123
Gain on reduction of ownership in subsidiary and associated companies	(6)	(4,146)	(257)
Net gains on disposal of investments		(1,339)	(227)
Non-controlling interest		(141)	682
Deferred income taxes		90	132
Dividends received in excess of equity in net losses of associated companies		444	208
Other non-cash items		(193)	(317)
Operating cash flow		4,020	5,655
Increase in working capital		(422)	(860)
Other items		174	(405)
Cash flow from operations		3,772	4,390
Cash provided by (used for) investments			
Capital expenditures		(3,774)	(3,413)
Investments		(3,499)	(1,166)
Divestitures		2,750	891
Disposal of capital assets	(12)	768	9
Long-term notes and other receivables		(52)	421
Reduction in cash due to deconsolidation of Northern Telecom Limited	(1)	(3,007)	–
Other items		63	222
		(6,751)	(3,036)
Dividends declared			
By BCE Inc.			
Preferred shares		(93)	(74)
Common shares		(868)	(865)
By subsidiaries to non-controlling interest		(134)	(186)
		(1,095)	(1,125)
Cash provided by (used for) financing			
Notes payable and bank advances		2,227	(218)
Addition to long-term debt		983	1,296
Reduction of long-term debt		(2,174)	(1,314)
Issue of preferred shares		–	245
Issue of common shares		248	124
Purchase of common shares for cancellation		(32)	(134)
Issue of preferred and common shares by subsidiaries to non-controlling interest		950	1,060
Other items		(7)	12
		2,195	1,071
Net (decrease) increase in cash and short-term investments		(1,879)	1,300
Cash and short-term investments at beginning of year		2,249	949
Cash and short-term investments at end of year		370	2,249

(all tabular amounts are in millions of dollars, except per share amounts and where otherwise noted)

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and all amounts are in Canadian dollars unless otherwise indicated. As at December 31, 1997, BCE determined that most of its telecommunications subsidiary and associated companies no longer met the criteria necessary for the continued application of regulatory accounting provisions as a result of the introduction of price cap regulation and the opening of the local exchange market to competition and, as such, adjusted the net carrying values of assets and liabilities to reflect values appropriate under GAAP for enterprises no longer subject to rate-of-return regulation. The adjustment was recorded in 1997 as an extraordinary item, net of tax (see Note 2).

With respect to the financial statements of BCE Inc. (the Corporation) and its consolidated subsidiaries (collectively BCE), the material differences between Canadian and United States GAAP are described and reconciled in Note 20.

Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year presentation. For 1997, the revenues and operating expenses have been restated to conform with the current presentation, mainly related to the reclassification of Stentor settlement amounts as an increase in both revenues and operating expenses rather than as a net adjustment to revenues.

Consolidation

The financial statements of entities which are controlled by the Corporation are consolidated; entities which are jointly controlled by the Corporation, referred to as joint ventures, are accounted for using the proportionate consolidation method; associated companies, which the Corporation has the ability to significantly influence, are accounted for using the equity method; investments in other companies are accounted for using the cost method. The Corporation's principal subsidiaries are set out below:

	Ownership (%)	
At December 31	**1998**	1997
Bell Canada	**100**	100
BCE Mobile Communications Inc. (BCE Mobile)	**65.3**	65.3
Bell Canada International Inc. (BCI)	**73.7**	73.7

Following the acquisition of Bay Networks, Inc. (Bay Networks) by Northern Telecom Limited (Nortel Networks) (see Note 6) on August 31, 1998, BCE's ownership in Nortel Networks decreased, from approximately 51% to 41%, resulting in BCE changing, prospectively, its accounting for Nortel Networks from full consolidation to equity accounting effective September 1, 1998. Accordingly, BCE's consolidated balance sheet as at December 31, 1998 does not include Nortel Networks' assets and liabilities on a line-by-line basis. Furthermore, BCE's consolidated statement of operations includes Nortel Networks' statement of operations on a line-by-line basis up to August 31, 1998 and includes in other income BCE's share of Nortel Networks' net earnings to common since September 1, 1998.

Intercompany earnings on the sales of telecommunications equipment from Nortel Networks to most of BCE's regulated telecommunications subsidiary and associated companies prior to 1998 (see Note 3) were deemed to be realized and were not eliminated on consolidation. The sales price of such equipment was recognized for rate-setting purposes by the Canadian Radio-television and Telecommunications Commission (CRTC) and other regulators. In conjunction with the discontinued application of regulatory accounting provisions, the impact of these intercompany transactions were eliminated on consolidation beginning January 1, 1998. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation and amortization

Depreciation and amortization of capital assets are generally computed using the straight-line method, with rates based on the estimated useful lives of the assets. The expected useful lives of buildings are 20 to 40 years, machinery and equipment are 3 to 12 years and licenses are 14 to 20 years. In 1998, the composite depreciation rate for plant was approximately 6.9 % (8.1% in 1997).

Research and development (R&D)

R&D costs are charged to earnings in the periods in which they are incurred, except for costs incurred pursuant to specific contracts with third parties, which are charged to earnings in the same period as the related revenue is recognized. Related investment tax credits reduce R&D expense in the same period in which the related expenditures are charged to earnings, provided there is reasonable assurance the benefits will be realized.

1. ACCOUNTING POLICIES *(continued)*

Purchased in-process R&D assets

Purchased in-process R&D assets represent the value of the acquired R&D which were not technologically feasible as of the acquisition date and have no alternative future use, and are charged to earnings using an accelerated amortization method over its estimated useful life.

Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work in process inventories is comprised of material, labour and manufacturing overhead.

Translation of foreign currencies

Self-sustaining foreign operations, which comprise most of BCE's foreign subsidiaries and associated companies, are those whose economic activities are largely independent of those of the parent company. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. Resulting unrealized gains or losses, net of related hedging activities, are accumulated in and reported as currency translation adjustment in shareholders' equity. On reduction of such investments or on the payment of dividends by a self-sustaining foreign operation, an appropriate portion of the currency translation adjustment is recognized in earnings.

Integrated foreign subsidiaries are financially or operationally dependent on the parent company. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period. Translation exchange gains or losses of integrated foreign subsidiaries and those foreign subsidiaries operating in hyperinflationary economic environments are reflected in earnings.

Unrealized translation gains and losses on assets and liabilities denominated in foreign currencies are reflected in earnings for the year, except for gains and losses on long-term monetary assets and liabilities, such as long-term debt, which are reported as deferred charges or other long-term liabilities and amortized to earnings on a straight-line basis over the remaining lives of the related items.

Derivative financial instruments

BCE uses a combination of derivative financial instruments to manage its interest and foreign exchange risk exposures. BCE does not actively trade derivative financial instruments.

Gains and losses on forward contracts and cross currency swaps used to hedge foreign investments are deferred and reported as part of the currency translation adjustment in shareholders' equity. Gains and losses on forward contracts and cross currency swaps used to manage exposure to foreign exchange rates are recognized on the same basis as the gains and losses on the hedged item. Amounts receivable or payable under interest rate swaps are accrued and recorded as adjustments to interest expense. Gains and losses related to hedges of anticipated transactions are recognized in earnings or recorded as adjustments of carrying values when the hedged transaction occurs. Any premiums paid with respect to financial instrument contracts are deferred and expensed to earnings over the contract period.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the cost of investments over the fair value of the net assets acquired and is amortized on a straight-line basis, over its estimated useful life, up to a period of 20 years. The carrying value of goodwill is evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, BCE's management considers each business unit's financial condition, as well as expected pre-tax earnings, cash flows or market-related values. Any permanent impairment in the value of goodwill is written off against earnings in the year the impairment is recognized. Total goodwill amortization charged to operations, including that in equity in net losses of associated companies, amounted to $126 million in 1998 and $109 million in 1997.

Postemployment benefits

The Corporation and most of its subsidiaries provide various disability plans, workers' compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement, under specified circumstances. The cost of providing these benefits is charged to earnings in the period in which they are paid.

Postretirement benefits

The Corporation and most of its subsidiaries provide pension and certain health care and life insurance benefits for employees on retirement. The accounting for pension costs is outlined in Note 18. The cost of the other benefits is generally charged to earnings in the period in which they are paid.

Income taxes

As a result of the discontinued application of regulatory accounting provisions, most of BCE's telecommunications subsidiaries, which previously used the modified liability method of accounting for income taxes, adopted the deferral method and adjusted their deferred income tax balance as at December 31, 1997. The adjustment was reflected in the extraordinary item (see Note 2). Under the modified liability method of accounting for income taxes, deferred income tax balances were adjusted to reflect changes to income tax rates. The resulting adjustments were taken into earnings in the year in which the changes occurred.

The Corporation and its other subsidiaries also use the deferral method of accounting for income taxes. The deferred income tax balances reported on the consolidated balance sheet result from timing differences in the recognition of income and expense for financial statement and income tax purposes.

2. EXTRAORDINARY ITEM

As at December 31, 1997, BCE determined that most of its telecommunications subsidiary and associated companies no longer met the criteria necessary for the continued application of regulatory accounting provisions. As a result, BCE recorded an extraordinary non-cash charge of $2,950 million, net of an income tax benefit of $1,892 million and a non-controlling interest of $38 million. Also included in the extraordinary item was an after-tax charge of $97 million representing BCE's share of the related extraordinary item of its associated companies.

The operations of most of BCE's telecommunications subsidiary and associated companies no longer met the criteria for application of regulatory accounting provisions due to significant changes in regulation including the implementation of price cap regulation which replaced rate-of-return regulation effective January 1, 1998 and the concurrent introduction of competition in the local exchange market. Accordingly, BCE adjusted the net carrying values of assets and liabilities as at December 31, 1997 to reflect values appropriate under GAAP for enterprises no longer subject to rate-of-return regulation.

Before the advent of price cap regulation and the introduction of competition in the local exchange market, accounting practices were based on a regulatory regime which provided reasonable assurance of the recovery of costs through rates set by the regulator and charged to customers. These regulatory accounting provisions resulted in the recognition of certain assets and liabilities along with capital asset lives which were substantially different from enterprises not subject to rate-of-return regulation. The extraordinary charge consisted of a pre-tax charge of $3,602 million related to capital assets and a pre-tax charge of $1,181 million to adjust the carrying values of other assets and liabilities to arrive at carrying values appropriate for enterprises not subject to rate-of-return regulation. The amount of the charge related to capital assets was determined based upon an estimate of the underlying cash flows using management's best estimate assumptions concerning the most likely course of action and other factors relating to competition, technological changes and the evolution of products and services. The net carrying values of capital assets were adjusted primarily through an increase in accumulated depreciation. The primary component of the $1,181 million charge related to the write-off of deferred business transformation and workforce reduction costs. Prior to the discontinued application of regulatory accounting provisions, the deferred business transformation costs, which include workforce reduction and process optimization costs incurred as part of the business transformation program, and deferred workforce reduction costs, which include costs relating to workforce reduction programs implemented prior to the implementation of the business transformation program, were amortized to earnings over 5 years.

3. SEGMENTED INFORMATION

In 1998, the Corporation adopted Canadian Institute of Chartered Accountants Section 1701, Segment Disclosures, which modifies the definition of a reportable segment. Under this new section, segments correspond to the Corporation's internal organization structure rather than the industry and geographic areas of operations. The Corporation evaluates each segment's performance based on its contribution to consolidated net earnings.

BCE operates the following business segments which have been segregated based on products and services and/or geographic area reflecting the way that management organizes the segments within the business for making operating decisions and assessing performance:

Canadian Telecommunications – is comprised of Bell Canada, BCE Mobile and an All other category which is an aggregation of BCE's remaining Canadian Telecommunications interests. This segment provides a full range of domestic and international telecommunications services to Canadian customers as well as information technology services;

Nortel Networks – provides products which are used by telecommunications operating companies to interconnect access lines and transmission facilities to provide local or long distance services, products to address wireless communications and products which transport voice, data, image and video communications between locations within a city or between cities, countries or continents. In addition, Nortel Networks provides products that are primarily private digital switching systems, usually located on the customer's premises, which permit voice, data, or multimedia terminals to communicate with each other, with or without the use of wide-area public telephone networks; and

International Telecommunications – is comprised of BCI and BCE's other international telecommunications interests, primarily in Cable & Wireless Communications plc in the U.K. (which was sold in 1998) and in Jones Intercable, Inc. in the U.S. BCI owns, develops and operates telecommunications systems outside Canada, primarily in Latin America and the Asia Pacific region, with a focus on the wireless sector.

3. SEGMENTED INFORMATION *(continued)*

Business segments

	Canadian Telecommunications			Nortel Networks (i)	International Telecommunications	
	Bell Canada	BCE Mobile	All other		BCI	All other
1998						
Total revenues	**10,561**	**1,294**	**1,332**	**26,270**	**772**	**71**
Interest income	**2**	**4**	**11**	**179**	**23**	**–**
Interest expense	**557**	**48**	**87**	**347**	**203**	**–**
Depreciation of capital assets and amortization of goodwill	**2,210**	**245**	**273**	**1,076**	**118**	**2**
Amortization of in-process R&D and acquired technology	**–**	**–**	**–**	**2,216**	**–**	**–**
Equity in net earnings (losses) of associated companies	**–**	**(4)**	**27**	**(28)**	**(28)**	**(5)**
Income tax expense	**781**	**13**	**16**	**902**	**7**	**392**
Net earnings (loss) (ii)	**799**	**(1)**	**347**	**3,227**	**(48)**	**519**
Other significant non-cash items:						
– Gain on reduction of ownership in subsidiary and associated companies	**–**	**–**	**315**	**3,696**	**135**	**–**
– Restructuring and other charges	**471**	**–**	**–**	**47**	**–**	**–**
1997						
Total revenues	10,490	1,253	784	21,466	418	74
Interest income	(4)	2	5	127	18	5
Interest expense	602	42	76	238	80	2
Depreciation of capital assets and amortization of goodwill	2,350	199	208	688	45	5
Equity in net earnings (losses) of associated companies	–	(1)	(12)	20	(30)	(96)
Income tax expense	795	51	28	615	8	109
Net earnings (loss) (ii)	852	45	21	581	(56)	119
Extraordinary item	(2,725)	–	(225)	–	–	–

Reconciliations

	1998	1997
Revenues		
Total revenues for reportable segments	**40,300**	34,485
Corporate	**31**	32
Elimination of inter-segment revenues (iii)	**(1,360)**	–
Nortel Networks adjustment (i)	**(11,517)**	–
Total consolidated revenues	**27,454**	34,517
Net earnings (loss) before extraordinary item		
Total net earnings for reportable segments	**4,843**	1,562
Corporate	**(146)**	(148)
Elimination of inter-segment earnings (iii)	**(99)**	–
Total consolidated net earnings before extraordinary item	**4,598**	1,414

(i) Beginning September 1, 1998, Nortel Networks was no longer consolidated by BCE (see Note 1) and was recorded using the equity method. For segment reporting purposes, the statement of operations amounts represent Nortel Networks on a line-by-line basis for the 12 months of 1998. To reconcile to the consolidated financial statements, Nortel Networks' statement of operations amounts for the last four months must be excluded as BCE no longer consolidates Nortel Networks line-by-line but instead only records its share of Nortel Networks' earnings (loss).

(ii) Represents each segment's contribution to BCE's net earnings before extraordinary item.

(iii) Prior to January 1, 1998, telecommunications equipment sales from Nortel Networks to most of BCE's regulated telecommunications subsidiary and associated companies were deemed to be realized and were not eliminated on consolidation. The sales price of such equipment was recognized for rate-setting purposes by the CRTC (the amount of sales for 1997 was $1,535 million).

3. SEGMENTED INFORMATION *(continued)*

Geographic information (iv) (v)

	1998		1997	
	Revenues from external customers	**Capital assets & goodwill**	Revenues from external customers	Capital assets & goodwill
Canada	**13,482**	**15,449**	15,073	16,308
United States	**8,110**	**72**	12,685	893
Other countries	**5,862**	**2,004**	6,759	2,942
Total	**27,454**	**17,525**	34,517	20,143

(iv) The point of origin (the location of the selling organization) of revenues and the location of capital assets and goodwill determine the geographic areas.

Revenues by products and services (v)

	1998	1997
Local & access services	**5,386**	4,958
Long distance & networks services	**4,189**	4,529
Public carrier networks	**3,566**	5,633
Broadband networks	**3,613**	4,690
Wireless networks	**3,278**	4,801
Enterprise networks	**3,440**	5,383
Wireless voice services	**1,645**	1,279
Other	**2,337**	3,244
	27,454	34,517

(v) Revenues from external customers include Nortel Networks' revenues for 8 months in 1998 compared with 12 months in 1997 (see Note 1).

The accounting policies of the segments are the same as those described in Note 1 – Accounting Policies except as noted in (i) on the previous page. Inter-segment sales are made on arm's length terms.

4. BUSINESS ACQUISITIONS

Broadband Networks Inc. (BNI)

On January 9, 1998, Nortel Networks acquired all the issued and outstanding common shares of BNI, a company engaged in the design and manufacture of fixed broadband wireless communications networks. The aggregate purchase price was approximately US $433 million, comprising approximately US $149 million in cash and approximately 5.6 million of Nortel Networks' common shares. The acquisition was accounted for using the purchase method. The allocation of the purchase price was to net tangible assets for US $29 million, purchased in-process R&D assets for US $329 million and goodwill for US $75 million. The purchased in-process R&D assets were charged to earnings over a nine month period using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over 5 years.

Aptis Communications, Inc. (Aptis)

On April 22, 1998, Nortel Networks acquired Aptis, a remote-access data networking start-up company. The aggregate purchase price was approximately US $286 million. At closing, Nortel Networks issued approximately 2.5 million common shares and paid approximately US $5 million in cash to the Aptis security holders. The acquisition was accounted for using the purchase method. The allocation of the purchase price was to net tangible assets for US $8 million, purchased in-process R&D assets for US $203 million and goodwill for US $75 million. The purchased in-process R&D assets were charged to earnings over a nine month period using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over 5 years.

Occidente y Caribe Celular S.A. (OCCEL)

On March 31, 1998, BCI acquired a 68.4% interest in OCCEL. The aggregate purchase price was approximately $445 million. The acquisition was accounted for using the purchase method. The allocation of the purchase price was to tangible assets for $177 million, licenses for $511 million, tangible liabilities for $381 million and goodwill for $138 million. Goodwill resulting from the acquisition is being amortized on a straight-line basis over 16 years.

Hansol PCS Co. Ltd. (Hansol)

During 1998, BCI acquired an 18.2% interest in Hansol. The aggregate purchase price was approximately $179 million. The acquisition was accounted for using the purchase method. The allocation of the purchase price was to tangible assets for $365 million, licenses for $23 million, tangible liabilities for $267 million and goodwill for $58 million. Goodwill resulting from the acquisition is being amortized on a straight-line basis over 20 years.

Telesat Canada (Telesat)

On May 5, 1998, BCE increased its ownership interest in Telesat, a leader in satellite communications and systems management, from 58.7% to 100%. The aggregate purchase price was approximately $158 million. The acquisition was accounted for using the purchase method. The allocation of the purchase price was to tangible assets for $296 million, tangible liabilities for $228 million and goodwill for $90 million. Goodwill resulting from the acquisition is being amortized on a straight-line basis over 20 years.

CGI Group Inc. (CGI)

On January 5, 1998, BCE increased its equity interest in CGI, an information technology services company, from 24% to 34% by acquiring 12 million (on a post-split basis) Class A Subordinate Shares of CGI for $138 million.

In addition, on July 1, 1998, BCE Inc. entered into an agreement with CGI's three largest individual shareholders (the "Shareholders") providing for certain put and call options, as well as rights of first refusal, on the shares of CGI held by the Shareholders. The agreement gives the Shareholders the right to gradually sell (put options) their shares to BCE Inc. through January 5, 2004 and, thereafter for a period of two years, the right to BCE Inc. to buy (call options) these shares to the extent not already acquired by BCE Inc. The price per share payable on any exercise of the put or call options will be, in all cases, 115% of the market price for CGI shares on the exercise date payable in common shares of BCE Inc. These options, if fully exercised, will increase BCE's equity ownership and voting interest in CGI to approximately 55%.

As part of this agreement, Bell Canada transferred its system development and maintenance operations (both domestic and international) in exchange for CGI shares therefore increasing BCE's ownership interest in CGI to 42%. In addition, under the terms of a ten-year outsourcing agreement, which became effective July 1, 1998, a wholly-owned subsidiary of CGI is the preferred provider of Bell Canada's required information systems and information technology services. Bell Canada's minimum commitment between January 1, 1999 and June 30, 2001 is approximately $750 million. Beyond this period the amount of these expenditures will depend upon Bell Canada's business strategies and directions and the associated information systems and information technology requirements.

At December 31, 1998, BCE had acquired additional CGI shares resulting from the exercise, in part, of the above described put options in exchange for approximately 0.9 million BCE Inc. shares having a value of $54 million (at December 31, 1998, 11,821,955 BCE Inc. common shares were reserved for future purchases of CGI shares). BCE's equity ownership in CGI was 43% at December 31, 1998.

Effective July 1, 1998, BCE's interest in CGI has been accounted for under the proportionate consolidation method. As a result of the purchase of CGI shares through a series of transactions, BCE's purchase price in excess of the fair value of the net assets acquired at each step amounted to $145 million and is being amortized on a straight-line basis over 20 years.

5. RESTRUCTURING AND OTHER CHARGES

In 1998, BCE recorded pre-tax charges in the aggregate of $654 million representing restructuring and other charges of $102 million and $552 million, respectively. The restructuring charges relate to plans for rationalization of real estate and the integration of business units. Included in the charges are costs relating to lease terminations and associated costs and employee severance. Other charges include a provision for the costs of implementing local service competition and providing local number portability to the extent such costs are estimated not to be recoverable. Also included are costs relating to the write-down of certain assets and other provisions.

6. GAIN ON REDUCTION OF OWNERSHIP IN SUBSIDIARY AND ASSOCIATED COMPANIES

	1998	1997
Nortel Networks (a)	3,613	–
Entrust Technologies Inc. (Entrust) (a)	83	–
Teleglobe Inc. (Teleglobe) (b)	315	–
Comunicación Celular S.A. (COMCEL) (c)	135	–
BCI (d)	–	257
	4,146	257

(a) In 1998, BCE recognized a gain of $3,613 million on the reduction of its ownership, from approximately 51% to 41%, following Nortel Networks' acquisition of Bay Networks for an aggregate purchase price of approximately US $6.9 billion. At closing, Nortel Networks issued approximately 135 million common shares and assumed 39.4 million options to purchase Bay Networks common stock, which were equivalent to 23.6 million options to purchase common shares of Nortel Networks. The allocation of the purchase price was to tangible assets for US $1.9 billion, assumed liabilities for US $500 million, acquired technology assets for US $2.1 billion, purchased in-process R&D assets for US $1 billion and goodwill for US $2.4 billion. The acquired technology assets are being charged to earnings on a straight-line basis over thirty six months and the purchased in-process R&D assets are being charged to earnings over a nine month period using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over five years.

In 1998, Nortel Networks recognized a total gain of $83 million on the reduction of its ownership in Entrust, from 72.9% to 58.8%, following Entrust's issuance of common shares to acquire r[3] Security Engineering AG and through its initial public offering.

(b) In 1998, BCE recognized a gain of $315 million on the reduction of its ownership in Teleglobe, from approximately 25% to 20%, following Teleglobe's acquisition of Excel Communications, Inc. (Excel) for an aggregate purchase price of approximately $5.2 billion, satisfied through the issuance of common shares, of which approximately $4.0 billion was allocated to goodwill.

(c) In 1998, BCI recognized gains of $135 million on the transfer to COMCEL of its 68.4% interest in OCCEL and on the reduction of its ownership in COMCEL from 51.1% to 49.9% following American International Group Inc.'s investment in COMCEL.

(d) In 1997, BCE recognized a gain of $257 million on the reduction of its ownership, from 100% to 73.7%, in BCI, as a result of BCI's initial public offering.

7. OTHER INCOME

	1998	1997
Gain on disposal of investments		
Cable & Wireless Communications plc (CWC) (a)	**1,075**	–
Bell Emergis' Electronic Business Solutions (EBS) unit (b)	**74**	–
Nortel Networks – net (c)	**191**	142
Mercury Communications Limited (d)	**–**	51
Equity in net losses of associated companies	**(333)**	(120)
Interest income	**141**	151
Other	**(154)**	(116)
	994	108

(a) In June 1998, BCE recorded a gain of $1,075 million on the sale of its 14.2% interest in CWC for net cash proceeds of $2,289 million.

(b) Effective August 31, 1998, Bell Canada acquired a 65% controlling interest in MPACT Immedia Corporation (renamed BCE Emergis Inc. (BCE Emergis) on January 21, 1999) in exchange for the EBS unit of Bell Emergis and a cash investment of $68 million. The exchange of the EBS unit resulted in Bell Canada recording a gain of $74 million.

(c) In the first eight months of 1998, Nortel Networks recorded net gains of $191 million on the sale of various businesses and other investments for net proceeds of $234 million.

In 1997, Nortel Networks recorded a gain of $142 million related to the disposition of its interest in TTS Meridian Systems Inc. and Nortel Communications Systems Inc. distribution channels to WilTel Communications, LLC (WilTel) for net cash proceeds of $299 million and a 30% interest in WilTel.

(d) In January 1997, BCE recorded a gain of $51 million on the sale of a 5.17% interest in Mercury Communications Limited.

8. INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes follows:

	1998	1997
Earnings before income taxes, non-controlling interest and extraordinary item	**6,005**	3,618
Statutory income tax rates in Canada	**42.4%**	42.3%
Income taxes at Canadian statutory rates	**2,546**	1,530
Gain on reduction of ownership in subsidiary and associated companies	**(1,729)**	(22)
Purchased in-process research and development expense	**292**	–
Losses not tax effected	**168**	91
Equity in net losses of associated companies	**141**	51
Gain on disposal of investments	**95**	(53)
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(30)**	(73)
Large corporations tax	**8**	30
Other	**57**	(32)
Total income taxes	**1,548**	1,522

Details of income taxes:

	1998	1997
Income taxes		
Current	**1,471**	1,440
Deferred	**77**	82
	1,548	1,522

9. SUPPLEMENTARY BALANCE SHEET INFORMATION

At December 31	1998	1997
Accounts receivable		
Trade receivables (a)	**2,029**	9,027
Provision for uncollectibles	**(107)**	(402)
	1,922 (b)	8,625
Inventories		
Raw materials	**–**	778
Work in process	**17**	462
Finished goods	**159**	1,486
	176 (b)	2,726
Deferred charges (c)		
Deferred pension asset (see Note 18)	**1,364**	1,363
Unrealized foreign currency losses, net of amortization	**173**	141
Debt issue expenses, net of amortization	**98**	86
Amounts receivable under cross currency contracts	**136**	71
Other	**388**	427
	2,159	2,088
Debt due within one year		
Bank advances	**728**	146
Notes payable	**258**	627
Long-term debt due within one year	**1,089**	1,629
	2,075	2,402

(a) Under an agreement effective October 14, 1997, Bell Canada sold accounts receivable for aggregate cash proceeds of $650 million. Pursuant to the agreement, the purchaser will use the funds from collections to purchase further receivables from Bell Canada until expiration of the agreement on October 6, 2002.

(b) Following Nortel Networks' acquisition of Bay Networks (see Note 6), BCE changed, prospectively, its accounting for Nortel Networks from full consolidation to equity accounting effective September 1, 1998.

(c) Amortization of deferred charges amounted to $203 million in 1998 and $460 million in 1997.

10. INTERESTS IN JOINT VENTURES

BCE's proportionate share of interests in joint ventures are included in the consolidated financial statements and are summarized in the table below.

A substantial portion of the amounts proportionately consolidated relate to BCE's interest in CGI (see Note 4), BCI's interests in Americel S.A., Hansol PCS Co. Ltd. and Telet S.A. and Nortel Networks' interest in various joint ventures up to August 31, 1998 (see Note 1).

	1998	1997
Balance sheet		
Total assets	**1,414**	1,861
Total liabilities	**642**	942
Statement of operations		
Revenues	**1,239**	1,287
Net loss	**(46)**	(38)
Statement of changes in financial position		
Cash provided by operations	**16**	94
Cash used for investments	**(306)**	(236)
Cash provided by financing	**120**	100

11. INVESTMENTS IN ASSOCIATED AND OTHER COMPANIES

(Investments accounted for using the equity method, except where otherwise noted)

	Ownership (%)			
At December 31	1998	1997	1998	1997
Canadian Telecommunications				
Teleglobe (a)	20.0	23.3	1,308	279
Maritime Telegraph and Telephone Company, Limited (b)	34.4	34.8	132	122
Bruncor Inc.	44.8	44.9	158	147
Telesat (c)	100.0	58.7	–	92
Other			162	88
Investments, at cost			106	108
Nortel Networks (d)	40.7	51.7	7,081	–
Investments of Nortel Networks in associated companies			–	159
Investments of Nortel Networks in other companies, at cost			–	233
International Telecommunications				
Cable & Wireless Communications plc (see Note 7)	–	14.2	–	1,138
Jones Intercable, Inc. (Jones), at cost in 1998 (e)	–	31.4	454	443
Other			19	32
Investments, at cost			47	35
Corporate				
Investments, at cost			69	53
Total investments in associated and other companies (f)			9,536	2,929

(a) Teleglobe
On November 10, 1998, Teleglobe acquired Excel (see Note 6). In connection with the closing of the transaction, BCE exercised an existing option and acquired approximately 5.4 million Teleglobe common shares for an aggregate purchase price of approximately $218 million. In addition, in 1998 BCE purchased, on the open market, common shares of Teleglobe and Excel for an aggregate purchase price of $518 million.

(b) Maritime Telegraph and Telephone Company, Limited (MT&T)
BCE's 34.4% (34.8% in 1997) interest represents 10,254,058 common shares in 1998 and 1997. A Nova Scotia statute provides that no more than 1,000 shares of MT&T may be voted by any one shareholder.

(c) Telesat
At December 31, 1998, BCE's ownership interest was 100% (see Note 4) and as a result, Telesat is consolidated.

(d) Nortel Networks
Following Nortel Networks' acquisition of Bay Networks (see Note 6) on August 31, 1998, BCE's ownership in Nortel Networks decreased, from approximately 51% to 41%, resulting in BCE changing its accounting for Nortel Networks from full consolidation to equity accounting, prospectively, effective September 1, 1998.

Summarized financial information as reported by Nortel Networks for the years ended December 31, 1998 and 1997, respectively is as follows:

		(US $ millions)
Nortel Networks (summarized financial information)	1998	1997
Statement of operations		
Revenues	17,575	15,449
Gross profit	7,525	6,338
Amortization of intangibles	1,709	48
Net earnings (loss) applicable to common shares	(569)	812
Balance sheet		
Current assets	10,317	8,547
Total assets	19,732	12,554
Current liabilities	5,893	4,883
Long-term liabilities and non-controlling interest	2,274	2,261
Shareholders' equity	11,565	5,410
Total liabilities and shareholders' equity	19,732	12,554

(d) **Nortel Networks** *(continued)*

Nortel Networks' Contingencies

On October 14, 1998, a class action complaint was filed in the United States District Court for the Southern District of New York, purportedly on behalf of certain former Bay Networks securities holders, alleging that the proxy statement/prospectus and registration statement in connection with the Bay Networks merger (the Bay Networks Proxy Statement) as well as certain public statements made by Nortel Networks and certain named officers violated applicable securities laws by containing materially false and misleading statements and omissions concerning Nortel Networks' financial condition. Two additional class action complaints were filed in the same court on November 16, 1998 and December 11, 1998 alleging substantially similar claims. The court granted the plaintiffs' motion to consolidate all three actions on February 1, 1999.

In June 1998, four class action complaints were filed in the Delaware Court of Chancery, New Castle County, purportedly on behalf of all common shareholders of Bay Networks, alleging that the Bay Networks directors breached fiduciary duties owed to the Bay Networks shareholders and that Nortel Networks aided and abetted the alleged breaches of fiduciary duty. On July 23, 1998, Bay Networks, Nortel Networks, and counsel for the plaintiff class entered into an agreement in principle (the Settlement Agreement) under which the actions will be dismissed (subject to confirmation by the parties and the approval of the court) and which provided that additional disclosures be made in the final Bay Networks Proxy Statement and that counsel for the plaintiff class may apply to the court for an award of legal fees up to US $450 thousand and expenses up to US $25 thousand. Nortel Networks has provided for these amounts. On August 26, 1998, a class action complaint was filed in the same court purportedly on behalf of all Bay Networks common shareholders, alleging that the Bay Networks Proxy Statement was materially misleading by failing to disclose pending litigation by Bay Networks against six former employees. This action may also be dismissed if the court approves the Settlement Agreement.

On April 18, 1997, a lawsuit was filed in the California Superior Court, County of Santa Clara, purportedly on behalf of a class of shareholders who acquired Bay Networks common shares pursuant to the registration statement and prospectus that became effective on November 15, 1995. On March 4, 1997, Bay Networks announced that shareholders had filed two separate lawsuits in the United States District Court for the Northern District of California and the California Superior Court, County of Santa Clara against Bay Networks and ten of Bay Networks' current and former officers and directors, purportedly on behalf of a class of shareholders who purchased Bay Networks common shares during the period of May 1, 1995 through October 14, 1996. The two actions in the California Superior Court, County of Santa Clara, were consolidated in April 1998.

In June 1993, certain holders of Nortel Networks' securities commenced a class action in the United States District Court for the Southern District of New York alleging that Nortel Networks and certain of its officers violated the Securities Exchange Act of 1934 and common law by making material misstatements of, or omitting to state, material facts relating to the business operations and prospects and financial condition of Nortel Networks.

Nortel Networks is also a defendant in various other suits, claims and investigations which arise in the normal course of business.

Except where noted above, Nortel Networks is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact of these matters and therefore cannot determine whether these actions will, individually or collectively, have a material adverse impact on its consolidated financial position or results of operations. Unless otherwise noted, Nortel Networks and any named directors and officers intend to vigorously defend these actions.

(e) **Jones**

On May 25, 1998, BCE agreed to sell to Comcast Corporation its investment in Jones and a control option to acquire approximately 2.9 million shares of common stock of Jones currently held by Mr. Glenn R. Jones. As a result of certain conditions in the agreement, BCE no longer exercises significant influence and, as such, effective May 25, 1998, has been accounting for its investment in Jones using the cost method. The purchase price is expected to be finalized in 1999.

(f) The goodwill implicit in investments in associated companies amounted to $229 million at December 31, 1998 ($799 million in 1997).

12. CAPITAL ASSETS, NET

At December 31	**1998**		1997	
	Cost	**Net book value**	Cost	Net book value
Plant	**25,558**	**10,160**	25,414	10,422
Machinery and equipment	**6,238**	**2,900**	10,421	4,136
Buildings	**2,274**	**1,281**	4,443	2,736
Plant under construction	**1,215**	**1,215**	461	461
Licenses	**1,084**	**952**	515	443
Land	**86**	**86**	251	251
Other	**231**	**151**	111	106
	36,686	**16,745**	41,616	18,555

Depreciation and amortization of capital assets for 1998 amounted to $3,220 million ($3,418 million in 1997).

Prior to the discontinued application of regulatory accounting provisions, depreciation rates used by most of BCE's telecommunications subsidiary and associated companies, including Bell Canada, were reviewed and approved by the CRTC as part of the rate-setting process. Effective January 1, 1997, Bell Canada, in anticipation of obtaining CRTC approval with respect to asset lives to be used for 1997, used shorter asset lives than those used in 1996. The CRTC subsequently ordered that for purposes of calculating the contribution rates in 1997, Bell Canada use asset lives approved for use in 1996. Bell Canada did not adjust its 1997 depreciation expense to reflect the CRTC approved asset lives. As a result, BCE's 1997 depreciation expense was approximately $335 million higher than the expense which would have resulted from the use of CRTC approved asset lives for 1997. The 1998 depreciation rates reflect the impact of changes in market and technological conditions on the estimated useful lives of assets.

In the first quarter of 1998, Bell Canada sold commercial properties to TrizecHahn Corporation. The net proceeds from the sale were $753 million.

13. LONG-TERM DEBT

At December 31	1998	1997
BCE Inc.		
8.375% Series 9 Notes (£125 million) due 1998	–	293
7.125% Series 10 Notes due 1998	–	300
8.75% Series 11 Notes due 1999	**200**	200
7.813% Series 12 Notes (£50 million) due 1999, swapped to Canadian dollar principal and interest of 8.82%	**127**	117
9.95% Series 13 Notes due 2000	**173**	173
5.55% Medium term notes due 2001	**150**	–
8.95% Series 8 Notes due 2002	**300**	300
LIBOR plus 0.225% term credit facility (US $400 million) due 2002, swapped to Canadian dollar principal and interest with fixed rate of 7.722% to 2000	**612**	572
6.2% Series 14 Notes due 2007	**300**	300
Total – BCE Inc.	**1,862**	2,255

At December 31	Weighted average rate of interest %	1998	1997
Bell Canada			
Debentures and notes (a)			
Due 1998	8.61	–	475
1999	9.60	**600**	600
2000	9.28	**538**	519
2001	7.25	**150**	150
2002	7.58	**300**	300
2003	6.62	**534**	618
2004 – 2013	9.77	**1,862**	1,822
2014 – 2054	9.64	**1,225**	1,225
Subordinated debentures			
Due 2026 – 2031	8.21	**275**	275
Other	–	**64**	57
Total – Bell Canada		**5,548**	6,041

(a) Debentures and notes include US $400 million maturing in 2006 and 2010; 300 million Swiss francs, due 2003, and Canadian $180 million, due 1999, swapped into U.S. dollar obligations as to principal and interest obligations; and 150 million German marks, due 2000, swapped into Canadian dollar obligations as to principal and interest obligations. In addition, $750 million of long-term debt includes call options permitting early repayment of the principal amounts upon payment of certain premiums.

At December 31	1998	1997
BCE Mobile		
8.3% Series D senior unsecured debentures due 1998	–	100
6.55% Series 1 senior unsecured notes (US $150 million) due 2000, swapped to Canadian dollar principal and interest of 7.99%	**230**	216
7.3% Series E senior unsecured debentures due 2007	**150**	150
6.55% Series F senior unsecured debentures due 2008	**150**	150
Other	**14**	21
Total – BCE Mobile	**544**	637

13. LONG-TERM DEBT *(continued)*

At December 31	1998	1997
BCI		
LIBOR plus 5.5% Senior term loan (1998 – US \$300 million, 1997 – US \$146 million) due in varying semi-annual payments ending in 2002	**456**	208
14.0% Senior discount notes (US \$137 million) due 2004	**208**	–
14.125% Senior deferred coupon bonds (1998 – US \$222 million, 1997 – US \$196 million) due 2005	**338**	279
Other (b)	**504**	115
Total – BCI	**1,506**	602
Nortel Networks (see Note 1)	**–**	2,567
Other subsidiaries	**889**	682
Total long-term debt	**10,349**	12,784
Less: due within one year	**1,089**	1,629
Long-term debt	**9,260**	11,155

(b) Other consists mainly of bank, term equipment and other financing at various rates due at different dates no later than 2006.

Long-term debt maturities during each of the next five years are summarized below:

Years ending December 31	1999	2000	2001	2002	2003
BCE Inc.	327	173	150	912	–
Bell Canada	634	554	152	303	537
BCE Mobile	2	232	3	3	3
BCI	109	180	278	236	269
Other subsidiaries	17	101	81	110	27
Total maturities	1,089	1,240	664	1,564	836

At December 31, 1998, unused bank lines of credit, for general corporate purposes and to support commercial paper borrowings, generally at the banks' prime rate of interest, amounted to approximately \$3.1 billion.

14. FINANCIAL INSTRUMENTS

Risk management

BCE Inc. uses cross currency swaps to hedge its foreign currency denominated long-term debt against fluctuations in foreign exchange rates. The Corporation also uses interest rate swaps to manage its exposure to interest rate fluctuations and reduce its financing costs.

Bell Canada uses cross currency swaps, forward contracts and interest rate swaps to manage its foreign currency and interest rate positions associated with its debt instruments. Bell Canada generally uses these derivative contracts to reduce its financing costs and to diversify Bell Canada's access to capital markets.

BCE Mobile uses a cross currency swap to hedge its only foreign currency denominated debt instrument against fluctuations in foreign exchange rates.

BCI operates internationally and as such is exposed to fluctuations in foreign exchange rates. BCI does not currently use financial instruments to limit its exposure to fluctuations in foreign exchange rates on its investments or long-term debt, or to manage the risk of interest rate fluctuations on existing long-term debt.

Credit risk

BCE is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties. BCE deals only with highly-rated financial institutions and monitors the credit risk and credit standing of counterparties on a regular basis. BCE manages its exposure so that there is no substantial concentration of credit risk resulting from interest rate swaps, cross currency swaps, forward contracts and option contracts. In addition, BCE is exposed to credit risk from customers. However, BCE's businesses have a large number of diverse customers which minimizes the concentration of this risk.

Currency exposures

The terms of the cross currency contracts essentially match the terms of the hedged item. The following table summarizes the debt-related strategies used to manage the exposure to fluctuations in foreign exchange rates, as at December 31, 1998:

		Before-hedging strategies		After-hedging strategies	
	Total	Canadian dollars	Foreign currency	Canadian dollars	Foreign currency
Long-term debt					
BCE Inc.	1,862	1,123	739	1,862	–
Bell Canada	5,548	4,424	1,124	4,382	1,166
BCE Mobile	544	314	230	544	–
BCI	1,506	–	1,506	–	1,506
Other subsidiaries	889	724	165	724	165
Total long-term debt	10,349	6,585	3,764	7,512	2,837
Notes payable	258	197	61	197	61

Principal amounts to be received under cross currency swaps and forward contracts include £ 50 million, DM 150 million, SF 300 million, US $550 million and $180 million.

Principal amounts owed under cross currency swaps and forward contracts include US $322 million and $1,010 million.

14. FINANCIAL INSTRUMENTS *(continued)*

Interest rate exposures

Long-term debt is mainly issued at fixed interest rates and notes payable are issued at market rates for commercial paper. The terms of the interest rate swaps are related to the hedged item and are principally between two and nine years in duration.

The following table summarizes the debt and preferred share-related strategies used to manage the exposure to interest rate fluctuations and reduce financing costs, as at December 31, 1998:

		Before-hedging strategies		After-hedging strategies	
	Total	Fixed interest rate	Floating interest rate	Fixed interest rate	Floating interest rate
Long-term debt					
BCE Inc.	1,862	1,250	612	1,862	–
Bell Canada	5,548	5,548	–	5,398	150
BCE Mobile	544	544	–	544	–
BCI	1,506	685	821	685	821
Other subsidiaries	889	843	46	843	46
Total long-term debt	10,349	8,870	1,479	9,332	1,017
Preferred shares	1,700	1,700	–	1,050	650
Notes payable	258	73	185	73	185

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. Fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in fair values.

Therefore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

At December 31, 1998 and 1997, the carrying value of all financial instruments approximates fair value with the following exceptions:

	1998		1997	
	Carrying value	**Fair value**	Carrying value	Fair value
Long-term debt due within one year	**1,089**	**1,112**	1,629	1,641
Long-term debt	**9,260**	**10,731**	11,155	12,384
Retractable preferred shares (a)	**129**	**133**	129	148
Derivative financial instruments, net asset (liability) position:				
Cross currency swaps (b)	**126**	**116**	(74)	(49)
Forward contracts (b)	**(6)**	**(6)**	(9)	(26)
Interest rate swaps	**–**	**73**	–	3
Options	**–**	**–**	–	(34)

Accounts receivable securitization balances are summarized in Note 9.

(a) Preferred shares, having liability characteristics, issued by subsidiaries to non-controlling interest, are included in other long-term liabilities on the balance sheet, with dividends treated as interest expense.

(b) Amounts receivable or payable under cross currency contracts are included in current assets, deferred charges or liabilities, as appropriate.

Guarantees

At December 31, 1998, BCE had outstanding guarantees of $375 million ($450 million in 1997) representing financial, bid, performance and advance payment guarantees issued in the normal course of business.

15. NON-CONTROLLING INTEREST

At December 31	1998	1997
Non-controlling interest in subsidiaries:		
Nortel Networks	– (a)	3,503
BCE Mobile	**305**	215
NewTel Enterprises Limited	**162**	116
Other	**176**	262
	643	4,096
Preferred shares issued by subsidiaries:		
Nortel Networks	– (a)	850
Bell Canada	**630**	630
Other	**85**	35
	715	1,515
	1,358	5,611

(a) Following Nortel Networks' acquisition of Bay Networks (see Note 6), BCE changed, prospectively, its accounting for Nortel Networks from full consolidation to equity accounting effective September 1, 1998.

16. PREFERRED SHARES

Authorized

The articles of incorporation of the Corporation provide for an unlimited number of First Preferred Shares and Second Preferred Shares. The articles authorize the Directors to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching to them.

Authorized and outstanding

The following provides a summary of the principal terms and conditions relating to the Corporation's authorized and outstanding series of First Preferred Shares. The detailed terms and conditions of such shares are set forth in the Corporation's articles of incorporation.

CUMULATIVE REDEEMABLE FIRST PREFERRED SHARES

								Authorized		Outstanding	
										At December 31 Stated capital	
Series	Annual Dividend Rate		Convertible Date (on or after)	Convertible into	Redemption Date	Redemption Price		Number of shares		**1998**	1997
P	$1.600		July 15, 2002 (a)	common shares	April 15, 2002	$25		16,000,000	(h)	**400**	400
Q	$1.725	(b)	December 1, 2000	Series R	December 1, 2000	$25	(c)	8,000,000	(h)	**200**	200
R		(g)	December 1, 2005	Series Q	December 1, 2005	$25		8,000,000		**–**	–
S	$1.320	(b)	November 1, 2001	Series T	November 1, 2001	$25	(c)	8,000,000	(h)	**200**	200
T		(g)	November 1, 2006	Series S	November 1, 2006	$25		8,000,000		**–**	–
U(d)	$1.385	(e)	March 1, 2007	Series V	March 1, 2007	$25	(f)	22,000,000	(h)	**350**	350
V		(g)	March 1, 2012	Series U	March 1, 2012	$25		22,000,000		**–**	–
W(d)	$1.363	(e)	September 1, 2007	Series X	September 1, 2007	$25	(f)	20,000,000	(h)	**300**	300
X		(g)	September 1, 2012	Series W	September 1, 2012	$25		20,000,000		**–**	–
Y	$1.150	(b)	December 1, 2002	Series Z	December 1, 2002	$25	(c)	10,000,000	(h)	**250**	250
Z		(g)	December 1, 2007	Series Y	December 1, 2007	$25		10,000,000		**–**	–
										1,700	1,700

All series outstanding as at December 31, 1998 are non-voting except under certain circumstances when the holders are entitled to one vote per share and are convertible at the holder's option.

(a) The Corporation may, at any time, elect to create a further series of preferred shares into which the Series P shares will be convertible on a share-for-share basis at the option of the holder. The Series P shares are, subject to the approval of certain stock exchanges, also convertible into common shares at the Corporation's option.

(b) Holders of Series Q, Series S and Series Y shares will be entitled to floating adjustable cumulative dividends commencing with the month of January 2001, December 2001 and January 2003, respectively.

(c) The Corporation may redeem Series Q, Series S and Series Y shares at any time after December 1, 2000, November 1, 2001 and December 1, 2002, respectively, for $25.50 per share.

(d) The Corporation has entered into interest rate swap agreements until 2007 to effectively convert the Series U and W fixed dividends to floating rate dividends equal to the 90-day Bankers' Acceptance Rate less 0.675% and 0.594%, respectively.

(e) Holders of Series U and Series W shares will be entitled to floating cumulative dividends commencing with the month of April 2007 and October 2007, respectively.

(f) The Corporation may redeem the Series U and Series W shares on and after March 1, 2007 and September 1, 2007, respectively. However, if these Series are listed on the Montreal or Toronto stock exchange, the redemption price after these dates shall be $25.50 per share.

(g) Authorized but not issued.

(h) Authorized and outstanding, except that only 14,000,000 Series U shares and 12,000,000 Series W shares are outstanding.

17. COMMON SHARES

All references to number of common shares, stock options and per share amounts have been restated to reflect the subdivision of common shares on a two-for-one basis on May 14, 1997.

Authorized: an unlimited number of common shares.

At December 31		1998		1997
	Number of shares	**Stated capital**	Number of shares	Stated capital
Outstanding	**640,131,136**	**6,559**	635,949,923	6,316

Changes in the number of common shares outstanding during the last two years:

		1998		1997
	Number of shares	**Stated capital**	Number of shares	Stated capital
Shares issued				
For cash				
Shareholder Dividend				
Reinvestment and Stock Purchase Plan	**2,017,882**	**106**	3,054,189	113
Employees' Savings Plan	**1,338,311**	**75**	–	–
Exercise of stock options	**603,375**	**15**	525,313	12
Exercise of put options by				
CGI shareholders (see Note 4)	**878,045**	**54**	–	–
Shares purchased for cancellation	**(656,400)**	**(7)**	(3,560,303)	(35)
	4,181,213	**243**	19,199	90

During the year ended December 31, 1998, the Corporation purchased 656,400 of its common shares (3,560,303 in 1997), under a normal course issuer bid, for an aggregate price of $32 million ($134 million in 1997), of which $1 million was charged to contributed surplus ($6 million in 1997) and $24 million was charged to retained earnings ($93 million in 1997).

Shareholder Dividend Reinvestment and Stock Purchase Plan (DRP)

The Corporation's DRP allows holders of its common shares to invest cash dividends and optional cash payments in newly issued common shares of the Corporation. Participants may purchase shares quarterly with common share cash dividends; in addition, participants may purchase shares monthly with optional cash payments up to an aggregate sum of $20,000 in each 12-month period ending October 15. Optional cash payments amounted to $20 million in 1998 and $29 million in 1997.

The issue price of DRP shares is the average of the closing prices for a board lot trade of the common shares of the Corporation on the Montreal and Toronto stock exchanges on the five trading days immediately preceding the investment date. No price discount is offered to participants. Eight percent of the number of outstanding common shares were enrolled in the DRP as at December 31, 1998 (ten percent as at December 31, 1997).

At December 31, 1998, 1,468,979 common shares were reserved for issuance under the DRP.

Employees' Savings Plan (ESP)

The ESP enables employees of the Corporation and its participating subsidiaries to acquire BCE Inc. common shares through regular payroll deductions plus employer contributions, if applicable. The purpose of the ESP is to encourage employees to own shares of the Corporation. Participation at December 31, 1998, was 34,793 employees (39,825 employees in 1997).

Common shares of the Corporation are purchased by the ESP Trustee on behalf of the participants on the open market, by private purchase or from BCE Inc., as determined from time to time by BCE Inc. The total number of ESP shares purchased on behalf of employees, including purchases from the Corporation shown in the table above, was 3,004,844 during 1998 and 4,723,677 in 1997.

At December 31, 1998, 9,500,215 common shares were reserved for issuance under the ESP.

17. COMMON SHARES *(continued)*

Stock options

Under the Long-Term Incentive (Stock Option) Program (1985), options may be granted to officers and other key employees of the Corporation and of its subsidiaries to purchase common shares of the Corporation at a subscription price of 100% of market value on the last trading day prior to the effective date of the grant. The options are exercisable during a period not to exceed ten years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of the grant. At December 31, 1998, a total of 2,820,295 options were outstanding (2,329,629 in 1997) at prices ranging between $20.0625 and $63.5250 ($18.4062 and $42.25 in 1997), of which 733,789 options were exercisable (738,875 in 1997) at prices ranging between $20.0625 and $42.250 ($18.4062 and $33.50 in 1997). At December 31, 1998, a total of 6,873,202 common shares remained authorized for issuance under this Program. Shares covered by options granted with respect to any year may not exceed 0.5% of the outstanding common shares of the Corporation at the end of the immediately preceding year.

Simultaneously with the grant of an option, the employee may also be granted the right to a special compensation payment (SCP). The amount of any SCP is equal to the increase in market value of the number of the BCE Inc. shares covered by the SCP (which may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCP to the date of exercise of the option to which the SCP is related. SCP's have been granted as follows: 1,421,650 in 1998 and 861,900 in 1997. At December 31, 1998, 2,638,107 SCP's covering the same number of shares as the options to which they are related are outstanding.

18. PENSIONS

The Corporation and most of its significant subsidiary companies maintain non-contributory defined benefit plans that provide for pensions for substantially all their employees based on length of service and rate of pay. BCE's funding policy is to make contributions to its pension funds based on various actuarial cost methods as permitted by pension regulatory bodies. The companies are responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures, secured mortgages and real estate.

The pension credit and the projected plan benefits are based on management's best estimates including long-term rate of return on the pension asset portfolio and long-term salary escalation rates. Variances between such estimates and actual experience, which may be material, are amortized over the average remaining service lives of the employees. From 1994 to 1997, adjustments to accrued benefits arising from workforce reduction programs were deferred and amortized over five years in conformity with a CRTC ruling. As a result of the discontinued application of regulatory accounting provisions, the unamortized balance of these pension credits was written-off in 1997 and included in the extraordinary item (see Note 2). In addition, included in the restructuring charges (see Note 5) are pension credits associated with employee severance.

18. PENSIONS *(continued)*

The following table sets forth the consolidated financial position of the pension plans and BCE's net pension asset:

At December 31	1998	1997
Plan assets at market value	**10,824**	17,244
Actuarially projected plan benefits		
Accumulated plan benefits	**6,622**	12,299
Effect of salary projections	**721**	1,597
Projected plan benefits	**7,343**	13,896
Plan assets in excess of projected plan benefits	**3,481**	3,348
Unrecognized net experience gains (i)	**(2,282)**	(2,495)
Unrecognized net assets existing at January 1, 1987 (i)	**(42)**	(56)
Unrecognized prior period costs (i)	**108**	141
Net pension asset reflected on the consolidated balance sheet	**1,265**	938
Deferred pension asset, included in deferred charges (see Note 9)	**1,364**	1,363
Deferred pension obligation, included in other long-term liabilities	**(99)**	(425)
Net pension asset	**1,265**	938

(i) Amortized over the employees' expected average remaining service lives (15 years at December 31, 1998).

The components of BCE's pension credit follow:

	1998	1997
Service cost – benefits earned	**288**	343
Interest cost on projected plan benefits	**939**	1,084
Expected return on plan assets	**(1,217)**	(1,307)
Net amortization and other	**(82)**	(167)
Pension credit	**(72)**	(47)

19. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At December 31, 1998, the future minimum lease payments under capital leases were $39 million. At December 31, 1998, the future minimum lease payments under operating leases with initial non-cancellable lease terms in excess of one year were $200 million in 1999, $185 million in 2000, $172 million in 2001, $144 million in 2002, $130 million in 2003 and $810 million thereafter. Rental expense applicable to operating leases for the year 1998 was $659 million and $560 million in 1997.

Uncertainty due to the year 2000 issue (Year 2000 readiness disclosure)

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. While BCE is addressing the issue, it is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Litigation

In the normal course of operations, BCE becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at December 31, 1998, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on BCE's consolidated financial position or results of operations.

20. RECONCILIATION OF EARNINGS REPORTED IN ACCORDANCE WITH CANADIAN GAAP WITH UNITED STATES GAAP

The material differences between Canadian and United States GAAP affecting the consolidated financial statements of BCE are reconciled in the table below.

	1998	1997
Net earnings (loss) applicable to common shares – Canadian GAAP	**4,505**	(1,610)
Adjustments		
Purchased in-process research and development (a)	**(319)**	–
Gain on reduction of ownership in subsidiary and associated companies (b)	**(698)**	–
Goodwill (b)	**(123)**	–
Postretirement benefits other than pensions (c)	**(65)**	(67)
Postemployment benefits (d)	**(17)**	(6)
Income taxes (e)	**(527)**	(41)
Income tax benefit related to stock options (f)	**(20)**	(27)
Pension credit (g)	**(13)**	20
Foreign exchange (h)	**(24)**	(17)
Other	**(32)**	(42)
Net earnings (loss) applicable to common shares – U.S. GAAP	**2,667**	(1,790)
Other comprehensive earnings items:		
Change in currency translation adjustment	**(17)**	79
Change in unrealized gain on investments, net	**6**	–
Comprehensive earnings (loss) – U.S. GAAP	**2,656**	(1,711)
Net earnings (loss) per common share – Canadian GAAP	**7.07**	(2.53)
– U.S. GAAP (i)		
• Basic	**4.18**	(2.81)
• Fully diluted	**4.12**	(2.81)

The cumulative effect of differences between Canadian and United States GAAP is to reduce retained earnings by $2,610 million as at December 31, 1998 and $772 million as at December 31, 1997.

(a) **Purchased in-process research and development (R&D)**
Under Financial Accounting Standards Board (FASB) Statement No. 2 "Accounting for Research and Development Costs", purchased in-process R&D having no alternative future use must be written-off at the time of acquisition. The adjustment represents the difference between the write-off of purchased in-process R&D recorded under United States GAAP and the purchased in-process R&D expense recorded under Canadian GAAP. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $319 million.

(b) **Gain on reduction of ownership in subsidiary and associated companies / Goodwill**
Under Canadian GAAP, the aggregate purchase price on acquisitions is based on the market price for a reasonable period before and after the date of acquisition. Under U.S. GAAP, the aggregate purchase price on acquisitions is based on the market price for a reasonable period before and after the date of the transaction's announcement. The difference in the purchase price under Canadian and U.S. GAAP creates a difference in the gain on reduction of ownership described in Note 6 (a). The difference in the purchase price under Canadian and U.S. GAAP also creates a difference in the amount of the purchase price that is allocated to goodwill.

In addition, under U.S. GAAP, if certain conditions are met, the pooling of interest method can be used to account for an acquisition. Under Canadian GAAP, the pooling of interest method can only be used when none of the parties involved can be identified as the acquirer. Accordingly, under U.S. GAAP, the purchase of Excel by Teleglobe, described in Note 6 (b), would be accounted for using the pooling of interest method. This results in the assets, liabilities and shareholders' equity of Teleglobe and Excel being combined at book values and, as such, the gain on reduction of ownership and goodwill referred to in Note 6 (b) would not be recorded. The cumulative effect of these differences is to reduce retained earnings as reported under Canadian GAAP by $821 million.

20. RECONCILIATION OF EARNINGS REPORTED IN ACCORDANCE WITH CANADIAN GAAP WITH UNITED STATES GAAP *(continued)*

(c) **Postretirement benefits other than pensions**
The costs of postretirement benefits other than pensions, such as health and life insurance benefits for retirees, are generally charged to earnings when paid. FASB Statement No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" requires the accrual of actuarially determined post-retirement benefit costs as active employees earn these benefits.

In reporting the impact of the adoption of Statement No. 106, the accumulated transitional obligation (i.e., employees' service prior to adopting the new method of accounting effective January 1, 1993) of most of BCE's telecommunications subsidiary and associated companies is amortized over 20 years. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $519 million.

(d) **Postemployment benefits**
The costs of postemployment benefits are generally recognized as the claims are paid. FASB Statement No. 112 "Employers' Accounting for Postemployment Benefits" requires the accrual of the postemployment benefits at the occurrence of an event that renders an employee inactive. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $125 million.

(e) **Income taxes**
Under FASB Statement No. 109 "Accounting for Income Taxes", BCE adjusted its net deferred income tax liability for all temporary differences between the carrying amounts of assets and liabilities, including investments in significantly influenced investees, for financial reporting purposes and the amounts used for income tax purposes, computed based on the rates and provisions of the enacted tax law. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $502 million.

(f) **Income tax benefit related to stock options**
Under Accounting Principles Board No. 25 "Accounting for Stocks Issued to Employees", the tax benefit associated with deductible stock option compensation is treated as an increase in share capital. Under Canadian GAAP, the income tax benefit is treated as a reduction to the income tax provision if compensation costs are not recorded. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $47 million.

(g) **Pension credit**
The difference arises from variations in methodology for calculating pension expense, curtailments and settlements under Canadian GAAP as opposed to under FASB Statement No. 87 "Employers' Accounting for Pensions" and FASB Statement No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $14 million.

(h) **Foreign exchange**
Under FASB Statement No. 52 "Foreign Currency Translation", unrealized foreign exchange translation gains and losses on long-term monetary assets and liabilities are reported in earnings immediately rather than deferred and amortized over the remaining lives of the related items. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $119 million.

(i) **Earnings per share**
FASB Statement No. 128 "Earnings Per Share" requires companies to replace the presentation of primary earnings per share (EPS) with a presentation of basic EPS which is consistent with the calculation for Canadian GAAP. The statement also requires dual presentation of basic and fully diluted EPS (which includes the impact of convertible securities and stock options).

21. SUBSEQUENT EVENTS

Strategic alliance with Manitoba Telecom Services Inc. (MTS)

On January 27, 1999, Bell Canada announced a strategic alliance with MTS that will make the two companies partners in the Manitoba, Alberta and British Columbia telecommunications markets. As part of its agreement with MTS, Bell Canada invested $336 million to acquire from treasury 6.2 million common shares of MTS and 7.8 million preferred shares of MTS which, upon successful completion of the MTS issuer bid for 14 million common shares, will give Bell Canada 20% of the issued and outstanding shares of MTS. In addition, Bell Canada and MTS will found a new telecommunications company to offer local access, long distance and data and integrated services and distribute BCE Nexxia Inc. broadband/IP services to large national business customers who require regional coverage in Alberta and British Columbia. The new company will be owned two thirds by MTS and one third by Bell Canada.

Issue of Convertible Unsecured Subordinated Debentures by BCI

On February 17, 1999, BCI completed the issuance of $250 million 6.75% Convertible Unsecured Subordinated Debentures due 2002 to a syndicate of underwriters. Interest on the debentures will be paid semi-annually to holders. BCI has the option to pay the conversion value and the interest in the form of BCI common shares or cash. On the same day, BCI issued $150 million 6.5% Convertible Unsecured Subordinated Debentures due 2002 to Nortel Networks. Interest on the debentures will be paid at maturity. BCI has the option to pay the conversion value and the interest in the form of BCI common shares or cash.

(Unaudited)	1998[1]	1997	1996	1995	1994	1993
Statement of operations data ($ millions)						
Revenues	**27,454**	34,517	28,167	24,624	21,670	19,827
Earnings before discontinued operations and extraordinary item	**4,598**	1,414	1,152	782	1,178	159
Loss from discontinued operations	–	–	–	–	–	(815)
Extraordinary item	–	(2,950)	–	–	–	–
Net earnings (loss)	**4,598**	(1,536)	1,152	782	1,178	(656)
Net earnings (loss) applicable to common shares	**4,505**	(1,610)	1,076	695	1,086	(750)
Balance sheet data ($ millions)						
Total assets	**32,072**	40,298	41,261	38,861	38,193	36,838
Long-term debt (including current portion)	**10,349**	12,784	12,586	13,062	11,738	11,135
Preferred shares	**1,700**	1,700	1,450	1,250	1,229	1,229
Common shareholders' equity	**11,945**	8,109	10,522	10,039	10,123	9,694
Capital expenditures	**3,774**	3,413	3,128	2,804	2,811	3,210
Common share data[2]						
Earnings (loss) per common share						
Before discontinued operations and extraordinary item	**7.07**	2.11	1.70	1.12	1.76	0.11
Discontinued operations	–	–	–	–	–	(1.33)
Extraordinary item	–	(4.64)	–	–	–	–
Net earnings (loss)	**7.07**	(2.53)	1.70	1.12	1.76	(1.22)
Dividends declared per common share	**1.36**	1.36	1.36	1.36	1.34	1.33
Other data						
Network access services (thousands)	**11,550**	11,190	10,866	10,593	10,301	10,015
Number of employees (thousands)	**58**	122	121	121	116	118

quarterly financial data

($ millions except per share amounts)	4th Quarter		3rd Quarter[3]		2nd Quarter[3]		1st Quarter[3]	
(Unaudited)	**1998**	1997	**1998**	1997	**1998**	1997	**1998**	1997
Revenues	**3,715**	10,355	**6,597**	8,112	**9,132**	8,418	**8,010**	7,632
Operating earnings	**848**	1,541	**4,303**	1,315	**1,332**	1,061	**803**	933
Net earnings before extraordinary item	**344**	416	**3,740**	446	**318**	291	**196**	261
Extraordinary item	–	(2,950)	–	–	–	–	–	–
Net earnings (loss)	**344**	(2,534)	**3,740**	446	**318**	291	**196**	261
Net earnings (loss) applicable to common shares	**320**	(2,553)	**3,716**	428	**295**	273	**174**	242
Earnings (loss) per common share[2]								
Before extraordinary item	**0.50**	0.63	**5.83**	0.67	**0.46**	0.43	**0.27**	0.38
Extraordinary item	–	(4.64)	–	–	–	–	–	–
Net earnings (loss)	**0.50**	(4.01)	**5.83**	0.67	**0.46**	0.43	**0.27**	0.38
Average number of common shares outstanding (millions)[2]	**639.7**	636.0	**637.9**	636.1	**636.7**	636.1	**636.2**	636.0

(1) Revenues, balance sheet data and number of employees for 1998 reflect the deconsolidation of Nortel Networks as of August 31, 1998.

(2) Adjusted to reflect the BCE two-for-one stock split effective May 14, 1997.

(3) Nortel Networks reported its first, second and third quarter results of 1998 in accordance with established accounting practices and valuations of acquired in-process research and development provided by independent valuators. These valuations were reconsidered in light of recent guidance provided by the U.S. Securities and Exchange Commission regarding valuation methodology. Based on this new valuation methodology, BCE's previously reported first, second and third quarter results of 1998 were restated. The impact of the restatement was to increase net earnings (loss) applicable to common shares by $22 million, $46 million and $77 million in the first, second and third quarters of 1998, respectively.

board of directors

L.R. Wilson, O.C.
Oakville, Ontario
Chairman of the Board of BCE Inc.
A director from May 1985 to September 1989 and since November 1990. Chairman of the Corporate Governance Committee and a member of the Pension Fund Policy Committee. A director of Bell Canada, Bell Canada International Inc. and Northern Telecom Limited.

Jean C. Monty, C.M.
Montreal, Quebec
President and Chief Executive Officer, BCE Inc.
A director from May 1991 to September 1992 and since October 1997. A member of the Pension Fund Policy Committee. Chairman and Chief Executive Officer of Bell Canada and Chairman of the Board of Bell Satellite Services Inc. A director of BCE Mobile Communications Inc., Bell Canada International Inc., CGI Group Inc., Northern Telecom Limited, Teleglobe Inc. and Telesat Canada.

Ralph M. Barford
Toronto, Ontario
President
Valleydene Corporation Limited
A director since April 1987. Chairman of the Management Resources and Compensation Committee and a member of the Corporate Governance Committee. A director of Bell Canada and Northern Telecom Limited.

Richard J. Currie, C.M.
Toronto, Ontario
President
George Weston Limited
A director since May 1995. A member of the Management Resources and Compensation Committee. A director of Bell Canada and Northern Telecom Limited.

Jeannine Guillevin Wood, O.C.
Montreal, Quebec
Chairman of the Board
Laurentian Bank of Canada
A director since May 1989. A member of the Audit Committee. A director of Bell Canada.

Donna S. Kaufman
Toronto, Ontario
Lawyer and Corporate Director
A director since June 1998.
A member of the Pension Fund Policy Committee. A director of Bell Canada International Inc.

Brian M. Levitt
Montreal, Quebec
President and Chief Executive Officer, Imasco Limited
A director since May 1998.
A member of the Audit Committee.

Gerald J. Maier
Calgary, Alberta
Chairman Emeritus
TransCanada PipeLines Limited
A director since January 1987.
A member of the Management Resources and Compensation Committee.

John H. McArthur
Wayland, Massachusetts
Dean Emeritus
Harvard University Graduate School of Business Administration
A director since May 1995. A member of the Management Resources and Compensation Committee.

J. Edward Newall, O.C.
Calgary, Alberta
Chairman, Newall and Associates
A director since May 1989.
Chairman of the Audit Committee.
A member of the Corporate Governance Committee. A director of Bell Canada and Bell Canada International Inc.

Guy Saint-Pierre, O.C.
Montreal, Quebec
Chairman of the Board
SNC-Lavalin Group Inc.
A director since May 1995.
A member of the Audit Committee.

Victor L. Young, O.C.
St. John's, Newfoundland
Chairman and Chief Executive Officer
Fishery Products International Limited
A director since May 1995.
Chairman of the Pension Fund Policy Committee. A member of the Corporate Governance Committee.

corporate officers

Jean C. Monty
President and Chief Executive Officer

William D. Anderson
Chief Financial Officer

Josef J. Fridman
Chief Legal Officer

Peter J.M. Nicholson
Chief Strategy Officer

Peter M. Sharpe
Chief Human Resources and Administration Officer

Pierre N. Lessard
Vice-President and Treasurer

Barry W. Pickford
Vice-President, Taxation

Marc J. Ryan
Vice-President,
Associate General Counsel and Corporate Secretary

BCE has established permanent committees of the Board of Directors to permit continuing review in the areas of auditing, pension fund policy, corporate governance and management resources and compensation.

The Audit Committee reviews, reports and, where appropriate, provides recommendations to the Board on: the annual and interim consolidated financial statements and the integrity of the financial reporting of the Corporation; the adequacy of the Corporation's processes for identifying and managing risk; the adequacy of its internal control system; the adequacy of its processes for complying with laws and regulations; the appropriateness of, and compliance with, the policies and practices of the Corporation relating to business ethics; the appointment, terms of engagement and proposed fees of the shareholders' auditor; the appointment and mandate of the internal auditor; the relationship between related entities' audit committees and that of the Corporation; and the relationship between the Audit Committee, other standing committees of the Board of Directors and management. The Audit Committee met six times during 1998.

The Pension Fund Policy Committee (PFPC) advises the Board of Directors on policy with respect to the administration, funding and investment of the Corporation's pension plan and the unitized pooled fund sponsored by the Corporation for the collective investment of the Corporation's pension fund and participating subsidiaries' pension funds (the "Master Fund"). The PFPC also generally oversees the administration and investment policies of the Corporation's pension plan and Master Fund. The PFPC met twice in 1998.

Effective January 27, 1999, the Board of Directors determined to replace the Management Resources and Nominating Committee (the "MRNC") by two separate committees, the Corporate Governance Committee (the "CGC") and the Management Resources and Compensation Committee (the "MRCC").

The Corporate Governance Committee (CGC) reviews, reports and, where appropriate, provides recommendations to the Board on: candidates for election to the Board of Directors and matters of corporate governance including standards of performance for directors, the size of the Board, tenure of directors, performance of directors, directors' remuneration in relation to current compensation practices, structure, responsibility and composition of Board committees and the merits of shareholder proposals. The CGC also undertakes periodic surveys of all directors to allow each director to assess the effectiveness of the Board as well as to appraise his or her own participation on the Board. It reports to the Board periodically on the Board's assessment of its effectiveness. It also assists newly appointed Board members in becoming acquainted with the Corporation and its governance process.

The Management Resources and Compensation Committee (MRCC) reviews, reports and, where appropriate, provides recommendations to the Board on: the appointment of the Chief Executive Officer and other officers; existing management resources and succession plans for officers and other ranks; the performance of the Chief Executive Officer and other officers; the Corporation's executive compensation policy and the compensation of the Chief Executive Officer and other officers; and any proposed major changes in organization or personnel, or to the Corporation's pension and benefit plans.

The predecessor to the CGC and the MRCC, the MRNC, met five times in 1998.

MEMBERS OF COMMITTEES OF THE BOARD

Audit	Pension Fund Policy	Corporate Governance	Management Resources and Compensation
J.E. Newall Chairman	V.L. Young Chairman	L.R. Wilson Chairman	R.M. Barford Chairman
J. Guillevin Wood	D.S. Kaufman	R.M. Barford	R.J. Currie
B.M. Levitt	J.C. Monty	J.E. Newall	G.J. Maier
G. Saint-Pierre	L.R. Wilson	V.L. Young	J.H. McArthur

AVERAGE DAILY TRADING VOLUMES†

(in thousands)	1998	1997
Toronto	1,796	1,580
Montreal	137	226
NYSE Consolidated tape	226	276

DIVIDENDS ON COMMON SHARES*

Record Date	Payment Date
March 15, 1999	April 15, 1999
June 15, 1999	July 15, 1999
September 15, 1999	October 15, 1999
December 15, 1999	January 15, 2000

* Subject to approval by the Board of Directors.

DIVIDENDS PAID†

Since 1995, quarterly dividends of $0.34 per common share have been paid.

NUMBER OF SHARES AND SHAREHOLDERS

At December 31, 1998, there were 640,131,136 BCE common shares outstanding and 200,304 registered common shareholders, and 68,000,000 preferred shares outstanding, and 758 registered preferred shareholders.

SPECIAL SERVICES FOR SHAREHOLDERS

1 Join BCE's Dividend Reinvestment and Stock Purchase Plan and increase your investment in BCE common shares without brokerage costs.
2 Avoid postal delays and trips to the bank by joining BCE's bank deposit program for your dividends.
3 Help BCE control costs and eliminate duplicate mailings by consolidating your accounts.

For more information, contact:
Montreal Trust Company
(514) 982-7555 *in the Montreal area*
or 1 800 561-0934
(toll free in Canada and the U.S.)

1999 ANNUAL MEETING

The annual and special meeting of BCE shareholders will take place at 10:30 a.m., Wednesday, April 28, 1999, at the Palais des Congrès, 200, Promenade du Portage, Hull (Québec).

ESTATE AND SUCCESSION DUTIES

There are no estate taxes or succession duties imposed by Canada or by any province of Canada.

CANADIAN WITHHOLDING TAXES ON FOREIGN INVESTORS

Dividends on BCE shares paid or credited to non-residents of Canada are subject to withholding tax at 25%, unless reduced by treaty. Under current tax treaties, U.S. and U.K. residents' withholding tax rate is 15%.

If you have questions concerning withholding taxes, please contact BCE Investor Relations:
1 800 339-6353
(toll free in Canada and the U.S.)
Fax: (514) 786-3970

FOREIGN OWNERSHIP OF BCE SHARES

In order to maintain the eligibility of its Canadian common carrier subsidiaries under the Telecommunications Act, BCE has certain powers to limit foreign ownership to no more than one-third of all of its outstanding voting shares. At December 31, 1998, foreign ownership of BCE common shares was some 11%.

STOCK EXCHANGE LISTINGS

Montreal, Toronto, Vancouver, New York, London and the Swiss Exchange.

TRANSFER OFFICES AND REGISTRAR FOR SHARES

Canada
Montreal Trust Company:
(514) 982-7555 *in the Montreal area*
or 1 800 561-0934
(toll free in Canada and the U.S.)

New York
Bank of Montreal Trust Company:
(212) 701-7652

London
The CIBC Mellon Trust Company:
(44) 181 478 1888

CORPORATE DOCUMENTS

Corporate documents are available from BCE Inc.

BY MAIL
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1000, rue de La Gauchetière O.
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Montréal (Québec)
H3B 4Y7

BY TELEPHONE
1 800 339-6353
(toll free in Canada and the U. S.)

BY E-MAIL
investor.relations@bce.ca

Documents available are annual and quarterly reports, news releases, stock quote data, annual information forms, notices of meetings and management proxy circulars, quarterly management's discussion and analysis, and quarterly supplemental information for analysts.

Most of these documents can also be found on our Web site:
www.bce.ca

† Adjusted to reflect the BCE two-for-one stock split effective May 14, 1997.

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Canadian Communications Services

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fax: (613) 742-4100
www.msat.tmi.ca

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www.bci.ca

Communications
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Investor Relations
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